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ABSTRACT

This curriculum unit is the third part of a three-part curriculum. The focus of this unit is on the U.S.-Japan economic relationship. Increasingly, the world resembles numerous, linked sub-economies fitting into an overall global economy. The making of almost any product relies in some way on international trading. In an increasingly economically interdependent world, it is vital that students become acquainted with the basic concepts underlying international trade. The goal of this curriculum unit is to give students an understanding of the concepts associated with international trade through focus on the U.S.-Japan economic relationship. Provided is a rationale and introduction to the lessons, along with unit goals, materials, time required, suggested sequence of activities, small group roles, grade levels, subjects, equipment needed, and icons. Lessons included in the unit are: (1) "Economic Interdependence"; (2) "The Process of Trade"; (3) "The Benefits of Trade"; (4) "The Problems of Trade"; and (5) "The Future of U.S.-Japan Relations." Handouts and primary source documents have been provided with each lesson to present students with a range of perspectives on the topic being studied. The volume concludes with a list of references and a glossary. (LB)

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ED 433 297

U.S.-Japan Relations

The View From Both Sides of the Pacific

PART III

INTRODUCTION TO INTERNATIONAL TRADE: WITH A FOCUS ON U.S.-JAPAN ECONOMIC RELATIONS

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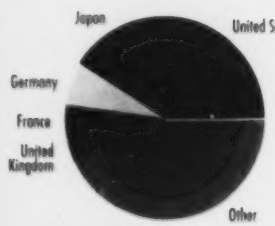

Share of World GNP
Source: World Bank

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Michigan

CATALYTIC CONVERTERS
California

ENGINE EXHAUST & INTAKE VALVES
South Carolina

INTAKE MANIFOLD
Missouri

FUEL PUMPS
South Carolina

ENGINE COMPONENTS
Kentucky, Indiana

STARTERS
Tennessee

STEERING COLU
Vermont

HORNS
Illinois

WIPER SYSTEMS
New York

AIRBAG
Mississi

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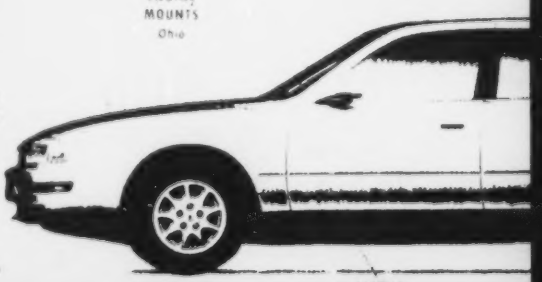

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U.S.–Japan Relations:
The View From Both Sides of the Pacific

Part III

Introduction to International Trade:
With a Focus on U.S.–Japan Economic Relations

Developed by Gary Mukai and Truc Truong
with contributions from Tony Shen, Brent Mori, and Amy Searight

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Unit Introduction

INTRODUCTION TO INTERNATIONAL TRADE:

WITH A FOCUS ON U.S.–JAPAN ECONOMIC RELATIONS

Rationale and Introduction to Lessons

Introduction to International Trade: With a Focus on U.S.–Japan Economic Relations is Part III of the three-part curriculum unit series *U.S.–Japan Relations: The View from Both Sides of the Pacific.* International trade, the exchange of goods and services between nations, is of premier importance. Increasingly, the world resembles numerous, linked sub-economies fitting into an overall global economy. The making of almost any product relies in some way on international trading. In an increasingly economically interdependent world, it is vital that students become acquainted with the basic concepts underlying international trade. The goal of this curriculum unit is to give students an understanding of the concepts associated with international trade through a focus on the U.S.–Japan economic relationship.

Former U.S. Ambassador to Japan Michael Armacost has said that "Japan represents such economic strength in the world that it's impossible to solve any problems in the economic sphere without its cooperation, not to mention the importance of our mutual security relationship, on which everybody in East Asia depends" (*Fortune*, February 26, 1990, p. 57). The alliance links together the two largest and most competitive economies in the world, both located in the vibrant and fast-growing region, Asia-Pacific. It also brings together two great democracies, united by a commitment to common values and by an enduring set of common national interests.

Former Japanese Ambassador to the United States Nobuo Matsunaga has said that it is urgent for Japan and the United States to have a stronger relationship because the two countries, which together make up about 40 percent of the world GNP, are largely responsible for the peace and prosperity of the world through their commitment to democracy and economic growth. He has also said that "No matter how difficult it is, we have to solve our problems. We are so intensively involved with each other that we cannot survive without depending on one another" (*Nichi Bei Times*, September 18, 1993, p. 2).

How fascinating that two bitter enemies, once locked in a fierce and destructive world war, should become friends and allies, working together to promote peace and prosperity. How intriguing that two very different societies and cultures, once divided by seemingly irreconcilable conflicts and racial animosities, should come to find common values and relations. The story of U.S.–Japan relations is as fascinating as any the world has seen in the last two centuries. Indeed, the story of this

sometimes stormy and always crucial relationship is one of the most central but least understood chapters in the twentieth century.

Lesson 1 of this curriculum unit begins by introducing students to **basic concepts of international trade.** Using this general information as a base and the economic relationship between the United States and Japan as an example, the lesson tries to impress upon students the concept and importance of global economic interdependence. Activities engage students in a resource trading game, an analysis of Japanese high school student responses to a questionnaire about their personal lives, interests, and the U.S.–Japan economic relationship, and an introduction to terms and definitions associated with international trade.

Lesson 2 introduces students to **the process of trade, with a focus on the international exchange rate system**. Activities focus on the major steps involved in international trade, the conversion of different currencies in the world using exchange rates, the analysis of an excerpt from a Japanese comic book publication, *Japan Inc.*, and a look at the U.S.–Japan trade imbalance.

Lesson 3 introduces students to **the benefits of trade, with a focus on comparative and absolute advantage**. Using examples from the U.S.–Japan economic relationship and knowledge from previous discussions and activities, students consider some of the possible benefits of trade such as availability of new products, diversity of the same types of products, lower costs of products, higher efficiency through specialization, and the jobs and businesses created by international trade.

Lesson 4 introduces students to **the problems of trade, with a focus on protectionism and its effects**. The lesson begins with a poll of students in order to evaluate prevailing views of U.S.–Japan economic relations. Students are introduced to traditional types of protectionism (tariffs and quotas) through a case study of the history of automobile voluntary export restraints. Different views of protectionism are also introduced through examples from the automobile industry. A cartoon excerpt from the Japanese publication, *Japan Inc.*, and U.S. political cartoons are presented in order to give students different perspectives on the problems of trade.

Finally, Lesson 5 provides students with **perspectives on the future of U.S.–Japan relations from two ambassadors**—Michael Armacost, former U.S. ambassador to Japan, and Takakazu Kuriyama, present Japanese ambassador to the United States. A final activity for this curriculum unit utilizes a trivial matters game to review and further illustrate the economic interdependence between the United States and Japan.

Unit Goals

Each of the five lessons in this curriculum unit has specific learning objectives listed. These objectives have been divided into knowledge, attitude, and skill objectives for students. Following are goals for the curriculum unit as a whole.

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In this curriculum unit, students will:

- learn basic concepts of international trade
- begin to understand the concept and importance of global economic interdependence
- learn basic steps in the process of trade
- be introduced to the international exchange rate system
- learn about the benefits of trade with a focus on comparative and absolute advantage
- learn about the problems of trade
- learn about protectionism and its effects
- be introduced to U.S. and Japanese perspectives on the U.S.–Japan economic relationship
- consider perspectives on the future of the U.S.–Japan economic relationship

Materials

Handouts and primary source documents have been provided with each lesson to present students with a range of perspectives on the topic being studied. Permission is given to reproduce these handouts and documents for classroom use only. A list of materials for each lesson is provided in each lesson.

Time, Suggested Sequence of Activities

Introduction to International Trade: With a Focus on U.S.–Japan Economic Relations is divided into five lessons. We recommend 2-3 class periods for each lesson. The various activities have been designed to give students multiple perspectives on the topic being studied.

Small Group Roles

Introduction to International Trade: With a Focus on U.S.–Japan Economic Relations engages students in many small group activities. Some of the suggested roles and responsibilities for students working in small groups are:

- **Facilitator**: responsible for reading instructions or designating someone in the group to read instructions, for assuring that the group is on task, and for communicating with the instructor
- **Recorder**: responsible for writing answers to questions, taking notes, etc.
- **Timekeeper**: responsible for keeping track of the time allocated for activities
- **Materials Manager**: responsible for obtaining and keeping track of materials used by the group
- **Harmonizer**: responsible for the group process—making sure, for example, that no one dominates the discussion or that everyone is participating
- **Reporter**: responsible for organizing group presentations and presenting results of activities to the class

Grade Levels

Grades 10-12, community college

unit introduction

Subjects This curriculum unit is recommended for use in economics or contemporary issues classes.

Equipment

- Overhead Projector

Icons For easier reference the following icons are used throughout the unit:

Notes to the Teacher

Background Information

Homework

Small Group Activity

Lesson 1

ECONOMIC INTERDEPENDENCE

WITH A FOCUS ON U.S.–JAPAN ECONOMIC RELATIONS

Organizing Questions

- What does interdependence mean?
- How is the world economically interdependent?
- How are the United States and Japan economically interdependent?

Introduction

Lesson 1 introduces students to basic concepts of international trade. Using this general information as a base and the economic relationship between the United States and Japan as an example, the lesson attempts to impress upon students the concept and importance of global economic interdependence.

The opening class discussion emphasizes the pervasiveness of international trade and world economic interdependence. The first activity of the lesson engages students in a Resource Trading Game, which stresses worldwide interdependence on trade and introduces some basic economic concepts such as unevenly distributed resources. The second activity introduces U.S.–Japan economic interdependence by providing students with questionnaire responses expressing the views of Japanese high school students on U.S.–Japan economic relations and their personal lives. Students compare these responses with their own views. The activity attempts to reveal similar and different points of view among U.S. and Japanese students and to further illustrate the interdependence of the two nations. A final activity involves the use of a crossword puzzle to introduce the terms and definitions associated with international trade. A homework assignment utilizes an article about how an earthquake in Japan could affect the United States and offers a unique perspective on the interdependence between the two nations. This lesson should take 2-3 class periods.

Objectives

knowledge

- to understand the meaning of *interdependence* and *global economic interdependence*
- to learn about the economic interdependence between the United States and Japan
- to become familiar with the terms and definitions associated with international trade

attitude

- to understand the pervasiveness and importance of international trade
- to think about international trade on a personal, national, and global scale

skill

- to work in small groups
- to analyze primary source materials

Materials

- Handout #1a: Resource Trading Game Cards, one set per group of 5 students, or
- Handout #1b: Resource Trading Game Cards, one set per group of 4 students
- Handout #1c: Hamburger Parts, multiple copies for each group (optional)
- Handout #2: United Nations International Trading Protocol: The Worldwide Hamburger Crisis, one per group
- Handout #3: Personal Evaluation, one per student
- Handout #4: Second Opinion, one per group
- Handout #5a: Personal Evaluations from Japan, one per group
- Handout #5b: Questionnaire Responses, one different response per group [30 different responses are included in lesson]
- Handout #6: Trade Words: a Crossword Puzzle, one per student
- Trade Words: Answers
- Handout #7: The Big One, one per student

Procedure

1. Inform students that Part III of *U.S.–Japan Relations: The View From Both Sides of the Pacific* focuses on international trade using the U.S.–Japan economic relationship as an example. This unit introduces international trade on a personal, national, and global scale. The overall goal of this unit is to help students understand the pervasiveness of international trade, the concept and importance of global economic interdependence, and the importance of the U.S.–Japan economic relationship.

2. To introduce this unit and to assess how much students know about international trade and the U.S.–Japan economic relationship, start a class discussion using the following questions:

- What is the difference between *intranational trade* and *international trade*? *Intranational trade* refers to the exchange of goods and services within a nation; *international trade* refers to the exchange of goods and services between nations.

- How does international trade affect the students personally? Where do they see international trade in their everyday lives? What would be missing from their lives without international trade? What types of products does the United States sell in international markets? Students might answer with a list of frequently used products that come from other countries.

- Why does the United States trade? What does the United States gain through trade? Possible answers might be that the United States gets products that aren't available otherwise, that foreign products might be of better quality, and that foreign products might be cheaper. Also, domestic producers may sell more of their product when they can sell in other countries as well as in the United States. Students might also

point out that international trading could create many new jobs and businesses.

- What kinds of problems are associated with international trade? An international marketplace with a greater number of producers means companies have to be more competitive. Companies in one country may be less productive than companies in other countries. Production and jobs may move overseas in an international marketplace.

- How does trading with Japan affect the students personally? Do they benefit from the United States trading with Japan? Do they lose anything through the United States trading with Japan? Can they think of U.S. products that Japanese might benefit from?

- What does *interdependence* mean? *Interdependence* refers to the condition when two or more parties are dependent on each other for things they need. Global economic interdependence refers to the situation today in which many of the world's nations are dependent on other nations for their economic well-being. Following a discussion of this term, share the following information about U.S.–Japan interdependence with the class.

U.S.–JAPAN INTERDEPENDENCE

There are many sides to the relationship between the United States and Japan. As trading partners, the two countries have grown increasingly dependent on each other for supplies of materials and products and markets for their goods. As two leading economic powers in the world, Japan and the United States have also invested heavily in each other's economies. As political and military allies, both countries have shared an interest in providing military security for Japan and promoting peace and stability in the Asia-Pacific region. This condition of mutual interdependence between the United States and Japan has grown steadily in the post-World War II era, despite the appearance of conflict over trade issues in recent years.

U.S.–JAPAN ECONOMIC INTERDEPENDENCE

Trade between the two countries has reached historic levels. In 1990, the two countries traded $140 billion worth of goods and services. The United States is by far the largest market for Japan. Japan is the second largest market for U.S. products, behind Canada. These high levels of trade produce benefits for both countries. Consumers find more products available on the market, often at lower cost. Manufacturers, especially in Japan, are able to produce more kinds of products because they can buy raw materials and other goods from other countries. Of course, trade also leads to competition between Japanese and U.S. companies in selling their products. This competition may lead to conflict between the two countries, especially if one side views the other as engaging in "unfair" trading practices abroad or protecting its markets at home.

3. The first activity, the Resource Trading Game, introduces students to the concept of global economic interdependence and the process, benefits, and problems of international trade. The activity requires students to role-play leaders of different countries with different resources. For the activity, the class should be divided into groups of five students. Each student will "trade" only with other members of his/her group. Included in this lesson is a set of five resource cards (Handout #1a), each card representing a different country. In case the class cannot be divided into groups of five, a set of four resource cards (Handout #1b) is also included.

   Before class starts, copy and cut apart Handout #1a or #1b, making a set of resource cards for as many groups as necessary. [Optional: Before class starts, make multiple copies of Hamburger Parts (Handout #1c). Refer to the resource cards to determine the number of copies of each hamburger part needed for each group.] In addition, give each group a sample resource record-keeping card, found in Handout #1a.

   Begin the activity by informing students that they will be playing a game that will introduce them to some of the concepts of international trade. Once the groups are formed, distribute Handout #2, United Nations International Trading Protocol: The Worldwide Hamburger Crisis, to each group and have students read the rules of the game. Next, distribute a set of resource cards, hamburger parts (optional), and a sample resource record-keeping card to each group. Each student should take one of the resource cards. Inform students that after they have received their cards, they must not show or trade them with any other student in the group. Inform students that they will have ten minutes to maximize the number of products they can make through trading within their group.

   To make a whole product (i.e., a hamburger), a student must have one of each of the five different resources. No card has the necessary resources to form a whole product. The goal of each student is to make the greatest number of whole products by trading only with members within his/her own group. Some resources will be scarce in comparison to others. The trading will probably commence with a one-to-one exchange rate, but the students may soon offer more of the abundant resources for the scarce ones. Using the sample resource record keeping card as a guide, students need to keep track of each trade. Give the signal to begin and allow trading for ten minutes.

4. After the activity, members of each group may have different numbers of complete products and assorted leftover resource items. Debrief the activity by asking them some of the following questions and raising some of the following points:

- Why did some people end up with more products than others? Have students discuss the distribution of resources. Did some people have advantages or disadvantages? Some students might express frustration about the trading process. Some, perhaps, were not as willing as others to trade. This is a possible reason why the results

ended up uneven or a maximum number of products was not achieved. Another possible answer may be that some students offered more of their abundant resources for the scarce ones, thus making their exchanges more appealing.

- In the real world, what would improve, hinder, or stop the trading process? Possible answers students might give are protectionist policies, communication barriers, national security reasons, trade agreements (such as most favored nation status and free trade pacts), and cultural barriers.

- How is the concept of global interdependence present in this activity? Students might respond that they needed one another's help to form complete products. How do the answers and the activity apply to real-life products and international trade? Ask students to think about the products they use and where the components of that product might have come from.

- In real life, even if a nation could supply all the parts of a product, could international trade still be beneficial? Students might answer that some countries might be more efficient at making certain products or have more resources.

5. Following the debriefing of the activity, inform students that the next activity will focus on the relationship between the United States and Japan as an example of economic interdependence. In this activity, students must be divided once again into small groups of four to five. Pass out copies of Handout #3, Personal Evaluation, which is a blank questionnaire asking personal questions concerning the viewpoints and preferences of the students. Have students answer questions #1–7 themselves and then wait for the rest of the group to finish before starting on the last two questions. After all students in each group are finished answering the first seven questions, inform them that questions #8 and #9 will require the sharing of every group member's knowledge and experience. Ask them to discuss questions #8 and #9 and formulate group answers.

6. Distribute a copy of Handout #4, Second Opinion, and a copy of Handout #5a, Personal Evaluations from Japan, to each group of students. Also give each group one of the 30 different responses from Handout #5b. (30 different responses from Handout #5b are included with this lesson so that teachers have the option of giving each student in the class a different response.) The different versions of Handout #5b are responses to similar questionnaires given to Japanese high school students during October 1993. Have each group read through Handouts #4 and #5a and its version of Handout #5b.

7. When students have finished reading the Japanese high school students' responses, ask each group to assign a reporter to read the group's answers to questions #8 and #9 on Handout #3 to the rest of the class. Then have the reporter summarize the responses of the Japanese high school student from his/her group's version of Handout #5b. Repeat for all groups. When this is finished, engage the

students in a discussion, asking some of the following:

- What were some of the most surprising responses on the Japanese students' questionnaires and why?
- Is there a contrast between the students' questionnaire responses and the Japanese students' questionnaire responses? If so, in what way?
- How is interdependence shown through the comparison between the students' responses and Japanese students' responses to the questionnaires? How is the importance of international trade shown?
- Are there any other questions that students wished were asked? If so, what are they and why?

Review the meaning of the terms *interdependence* and *global economic interdependence*: *Interdependence* refers to the condition when two or more parties are dependent on each other for things they need. *Global economic interdependence* refers to the situation today in which many of the world's nations are dependent on other nations for their economic well-being.

8. To bring closure to this lesson and to introduce the rest of the lessons in this unit, the last activity is a crossword puzzle (Handout #6) that introduces students to the terms and definitions of international trade. These terms will be utilized throughout this curriculum unit. Allow groups 20–30 minutes to work on these puzzles. A glossary of international trade terms is included in the appendices of this curriculum unit. Teachers may want to make copies of the glossary for each student to use as a reference throughout this curriculum unit.

9. For homework, assign Handout #7, The Big One. This handout contains an article called "A Quake to Rock the World," which offers a unique look at the economic interdependence between the United States and Japan. Inform students that Lesson 2 examines the process of trade with a focus on exchange rates.

RESOURCE TRADING GAME CARDS

NATIONAL RESOURCES—COUNTRY A
Status Report

Concerning the Hamburger Industry:

Resources available

- Pairs of bread buns 20
- Patties of beef 35
- Leaves of lettuce 20

Resources required

- Slices of cheese 0
- Slices of tomatoes 0

✂ ----------

NATIONAL RESOURCES—COUNTRY B
Status Report

Concerning the Hamburger Industry:

Resources available

- Patties of beef 30
- Slices of cheese 20
- Leaves of lettuce 20

Resources required

- Slices of tomatoes 0
- Pairs of bread buns 0

RESOURCE TRADING GAME CARDS

NATIONAL RESOURCES—COUNTRY C
Status Report

Concerning the Hamburger Industry:

Resources available

- Slices of tomatoes 25
- Pairs of bread buns 5
- Slices of cheese 25

Resources required

- Patties of beef 0
- Leaves of lettuce 0

NATIONAL RESOURCES—COUNTRY D
Status Report

Concerning the Hamburger Industry:

Resources available

- Slices of pickles 25
- Patties of beef 25
- Pairs of bread buns 25

Resources required

- Leaves of lettuce 0
- Slices of tomatoes 0

RESOURCE TRADING GAME CARDS

NATIONAL RESOURCES—COUNTRY E
Status Report

Concerning the Hamburger Industry:

Resources available

- Slices of tomatoes 25
- Patties of beef 5
- Leaves of lettuce 25

Resources required

- Pairs of bread buns 0
- Slices of cheese 0

✂ ----------

NATIONAL RESOURCES—SAMPLE RESOURCE RECORD KEEPING CARD
Status Report

Concerning the Hamburger Industry:

Resources available

- Slices of tomatoes ~~25~~ ~~18~~ ~~15~~ 11
- Patties of beef ~~5~~ ~~8~~ 9
- Leaves of lettuce ~~25~~ ~~21~~ ~~16~~ ~~14~~ 11

Resources required

- Pairs of bread buns ~~0~~ ~~2~~ ~~6~~ 8
- Slices of cheese ~~0~~ 4 ~~7~~ 9 10

RESOURCE TRADING GAME CARDS

NATIONAL RESOURCES—COUNTRY A
Status Report

Concerning the Hamburger Industry:

Resources available

- Pairs of bread buns 28
- Patties of beef 20
- Leaves of lettuce 12

Resources required

- Slices of tomatoes 0

✂ ----------

NATIONAL RESOURCES—COUNTRY B
Status Report

Concerning the Hamburger Industry:

Resources available

- Slices of tomatoes 35
- Pairs of bread buns 15
- Patties of beef 15

Resources required

- Leaves of lettuce 0

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RESOURCE TRADING GAME CARDS

NATIONAL RESOURCES—COUNTRY C
Status Report

Concerning the Hamburger Industry:

Resources available

- Slices of tomatoes 12
- Patties of beef 25
- Leaves of lettuce 18

Resources required

- Pairs of bread buns 0

✂ ----------

NATIONAL RESOURCES—COUNTRY D
Status Report

Concerning the Hamburger Industry:

Resources available

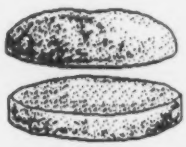
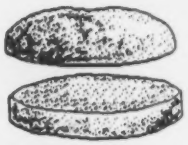
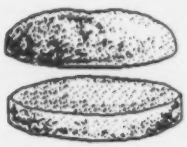
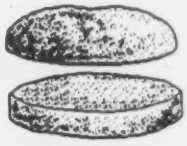
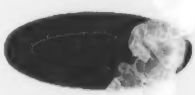
- Slices of tomatoes 15
- Pairs of bread buns 30
- Leaves of lettuce 15

Resources required

- Patties of beef 0

HAMBURGER PARTS

Directions for the teacher: Refer to the Resource Cards (Handouts #1a or #1b) and copy and cut out enough hamburger parts for each of the groups.

 bread buns	 bread buns	 bread buns	 bread buns
beef patty	beef patty	 beef patty	beef patty
leaf of lettuce	leaf of lettuce	leaf of lettuce	leaf of lettuce
tomato slice	tomato slice	tomato slice	tomato slice
slice of cheese	slice of cheese	slice of cheese	slice of cheese

UNITED NATIONS INTERNATIONAL TRADING PROTOCOL

The Worldwide Hamburger Crisis

Congratulations!

Welcome to our meeting! As the newly elected president of your country, you now have many tasks, one of which is to lead your people to economic prosperity. As you know, your nation is in dire need of hamburgers. Therefore, your task is to produce the greatest number of hamburgers before your term is up. Unfortunately, as you can see on your national resource status report card, your nation lacks some key ingredients to make a complete hamburger. It is your hope that other neighboring nations might have the resources you require. You should therefore trade resources you have in abundance for ones you have little or none of. Make the greatest number of hamburgers before your term expires (in 10 minutes) and your name may forever grace the history books as one of the great leaders and heroes of your people.

Look at your card to find out the state of your nation's resources. The numbers next to the resources are how many units of those resources your nation presently has; the resources that have zeros beside them are the ones you need. A complete product requires one each of the different resources (that is, to form a complete hamburger, you need one patty of beef, one slice of tomato, one pair of bread buns, and one leaf of lettuce. If your group has five members, you will also need one slice of cheese to complete each hamburger). Trading starts once your instructor permits you to begin. There are no specific rules to trading. Begin by asking a group member if he/she has a resource you need and offer him/her a reasonable trade (example: I'll give you three leaves of lettuce for three slices of tomatoes). If your offer is refused, either provide a better offer (example: I'll give you three leaves of lettuce for one slice of tomato and one patty of beef) or try trading with another member in your group. Dealings can occur simultaneously. Pay attention to other transactions so you can deduce which resources you need to pay more or less for. Talk to as many members in your group as possible to get the best deals. Good Luck!

PERSONAL EVALUATION

Examining some of our own preferences, habits, and views might help us understand how much we depend on international trade. How much are our personal lives directly affected by international trade? In this activity, everyone in your group will fill out a questionnaire. Each group member should answer the first seven questions individually. The last two questions should be answered as a group. Talk among yourselves about the questions. Use everyone's experience and knowledge so that the group's answers to the last two questions can be supported.

Questions:

1. What type of music do you like most? Have you ever listened to any music from foreign countries? If so, can you name the song(s) or artist(s)?

2. What is your favorite restaurant? What is your favorite food? What is your favorite foreign food (if different)? What is your favorite fast food restaurant?

3. What is your favorite pastime?

4. What is your favorite movie? Have you seen any foreign movies? If so, can you list your favorite(s)?

5. Have you taken or are you taking classes to learn another language? If so, what language(s) and for how long?

6. Can you list some favorite imported products that you use or popular imported products you see being used in the United States (such as cars, music, foods, clothes, stereos, etc.)? What countries do they come from?

7. Do you have friends or relatives whose work involves international trade? If so, what do they do?

8. Are there any products you know that exist in Japan and wish were available in the United States? If so, what are they?

9. In general, how do you feel about the trading between the United States and Japan? What do you think are the major problems and benefits?

SECOND OPINION

How dependent are we on international trade? What would be missing from our lives without it? Many of us might immediately think of products such as CD players, VCRs, and cars. Although most of these products can be made in our own country, we might not get the same quality or low prices for them if not for international trade. But there might be other things that international trading may have influenced in our life. Is our sense of fashion or taste in music affected by international trade? How about the food we eat? How about the television shows or movies we watch? International trade, directly or indirectly, touches so many aspects of our lives that we are more cosmopolitan than we sometimes realize.

If we look at the labels of products that we use, we become aware of the scope of international trade. Yet labels may not reveal the true pervasiveness of international trading. Even if a product is "Made in the USA" its parts and raw materials may come from several different places and countries. A jacket that carries a "Made in England" label might use cotton and nylon from the United States. The machines used to make that jacket might come from Germany, and some of the parts in the machine might come from Japan. The making of almost every product in some way relies on international trade. On the next page, take a look at this Pontiac LeMans, assembled in Asia, with parts from around the world.

Seeing international trade from another country's perspective might show interdependence in a new light. How much more different would the lives of its citizens be without international trade? What kind of products do you think other countries receive from the United States? To see how Japanese students view the United States, you will receive a questionnaire, Handout #5a, Personal Evaluations From Japan, and responses to the questionnaire from a Japanese high school student, Handout #5b. While reading through the responses as a group, think about how some of the responses illustrate examples of the interdependence between the United States and Japan.

Pontiac LeMans Assembled in Asia

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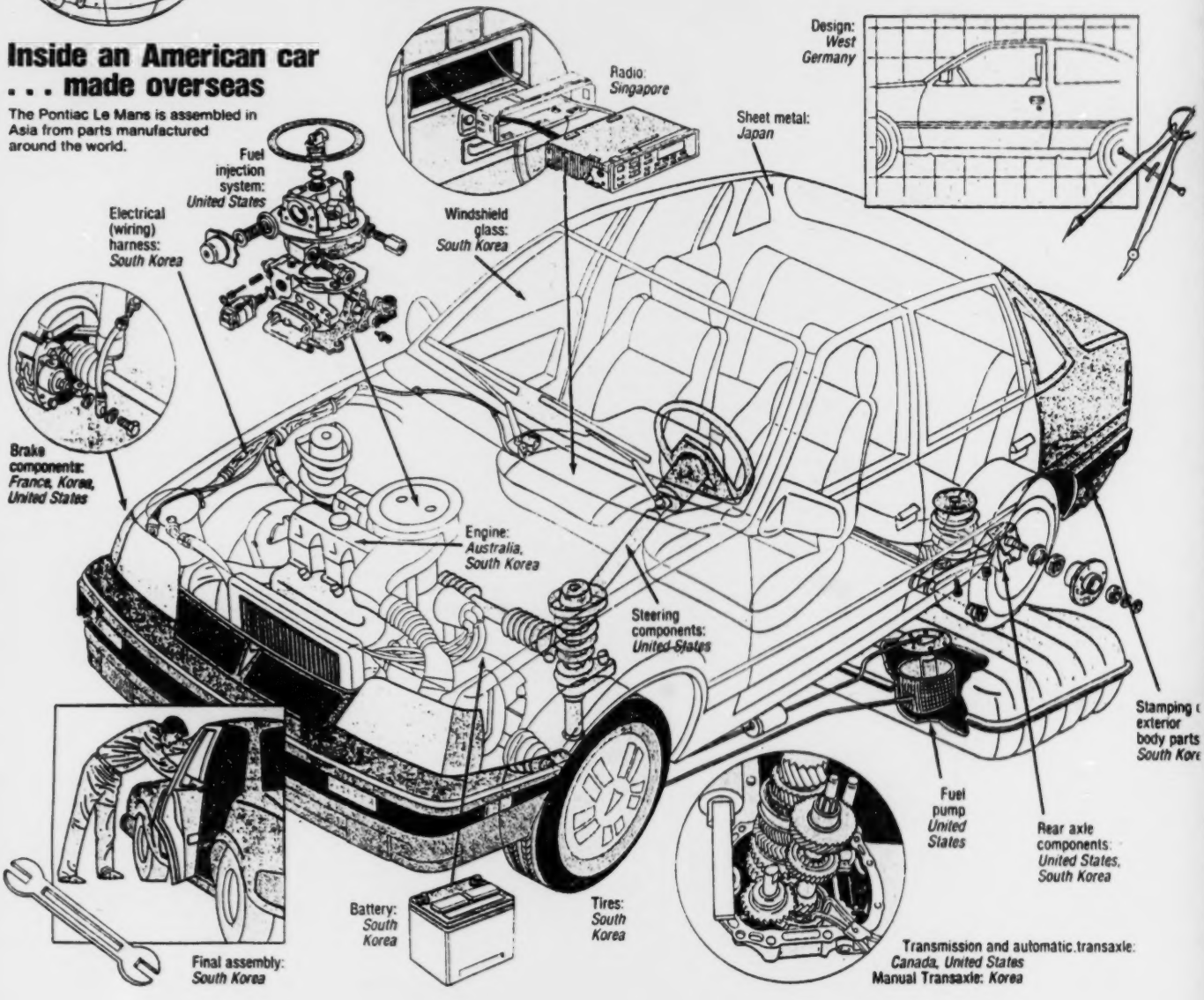
Buy American?

Inside an American car . . . made overseas

The Pontiac Le Mans is assembled in Asia from parts manufactured around the world.


Radio: Singapore
Design: West Germany
Sheet metal: Japan
Fuel injection system: United States
Electrical (wiring) harness: South Korea
Windshield glass: South Korea
Brake components: France, Korea, United States
Engine: Australia, South Korea
Steering components: United States
Stamping of exterior body parts South Kore
Fuel pump United States
Rear axle components: United States, South Korea
Battery: South Korea
Tires: South Korea
Final assembly: South Korea
Transmission and automatic transaxle: Canada, United States
Manual Transaxle: Korea

PERSONAL EVALUATIONS FROM JAPAN

The following questionnaire was given to Japanese high school students in October 1993. Your group has responses (translated from Japanese into English) from a Japanese high school student from Saitama or Aichi Prefectures, Japan. The purpose of the questionnaire was to find out about Japanese students' lives as well as their viewpoints on international trade and the U.S.–Japan relationship. By finding out some of the viewpoints of Japanese students concerning the U.S.–Japan relationship and by comparing their responses with your own, you may be able to better understand the scope of the interdependence of the United States and Japan at a personal level. Please note that some information [in brackets] is included in many of the responses to help you to better understand the responses from the Japanese student. As a group, discuss the following questions:

- What were some of the most surprising answers on the Japanese student's questionnaire and why?
- Is there a contrast between your questionnaire responses and the Japanese student's questionnaire responses? If so, in what way?
- How is interdependence shown through the comparison between your responses and the Japanese student's responses to the questionnaires? How is the importance of international trade shown?
- Are there any other questions that you wished were asked? If so, what are they and why?

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Personal Questionnaire

Name:_____
Gender:_____
Grade:_____

1. What type of music do you like most? Have you ever listened to any music from foreign countries? If so, can you name the song(s) or artist(s)?

2. What is your favorite restaurant? What is you favorite Japanese food? What is your favorite American food? What is your favorite fast food restaurant?

3. What is your favorite pastime?

4. What is your favorite movie? Have you seen any American movies? If so, can you list your favorite(s)?

5. What classes are you taking at school?

6. Can you list some imported products that you use or see being used in Japan? What countries do the products come from?

7. Do you have friends or relatives whose work involves international trade? If so, what do they do?

8. Are there any products you know exist in the United States that you wish were available in Japan? If so, what are they?

9. In general, how do you feel about the trading between the United States and Japan? What do you think are the major problems and benefits?

QUESTIONNAIRE RESPONSES

Response #1
The following responses were translated from Japanese to English.

NAME: Toshiaki
GENDER: male
GRADE: 10th

1. Classical. Beethoven's 9th Symphony.
2. *Sushi* [vinegared rice with fish and/or vegetables] bars. *Sushi*. Steak. McDonald's.
3. Playing the viola.
4. Animated movies—*My Neighbor Totoro. Back to the Future.*
5. Mathematics, English, physical education, Japanese language, science, social studies/history.
6. Purses, clothes, boom boxes (portable radio/cassette players).
7. No.
8. Wind-generated electricity, lots of land, presidential form of government.
9. Japan has made large profits from trade with the United States, so it would be okay to import more rice from the United States. There is the possibility that the trade imbalance could force American big business to go completely bankrupt. On the other hand, through this international trade, Japan has become an economic superpower. From now on, I don't think that Japan needs to continue saying things from a selfish point of view.

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QUESTIONNAIRE RESPONSES

Response #2
The following responses were translated from Japanese to English.

NAME: Mitsunori
GENDER: male
GRADE: 10th

1. I don't have a special favorite. Some songs from other countries that I have heard are the Korean national anthem, the American national anthem, and others.

2. Family restaurants. *Sushi* [vinegared rice with fish and/or vegetables], *udon* [white noodles made from wheat flour], *soba* [buckwheat noodles], *tempura* [a variety of deep-fried foods]. Hamburgers and fried chicken.

3. Bowling and computer programming.

4. No particular favorite. *E.T.*, *Jurassic Park.*

5. Mathematics, English, physical education, Japanese language, science, social studies/history.

6. Vacuum cleaners (Taiwan, Korea), meat (America, Australia), wheat (China, America, Australia), chocolate (France, American, Switzerland, etc.), toys (Korea, China, Taiwan), fish (Korea, America), etc.

7. Yes, my uncle is a computer technician and travels to various different countries.

8. Large houses. Being able to do things that you decide on doing without a large group forcing you do things (in Japan, school groups and clubs, etc., take up a lot of your time).

9. I think that opening up the rice market to some degree is good. However, if Japan's rice industry goes bankrupt, it will be a problem, so opening up the rice market should be done in moderation. I think that importing wheat, soybeans, meat, and mineral products is good.

QUESTIONNAIRE RESPONSES

Response #3
The following responses were translated from Japanese to English.

NAME: Wataru
GENDER: male
GRADE: 10th

1. Popular music. Bon Jovi—"Born to Be My Baby" and "Wild in the Wind."

2. Chinese restaurants. *Sashimi* [sliced raw fish]. Hamburgers. McDonald's.

3. Watching videos and movies. Sports.

4. *People of the Ceiling Gallery* [A Japanese movie], *Dracula, Gone with the Wind, Backdraft, Dances with Wolves.*

5. Mathematics, English, physical education, Japanese language, science, social studies/history.

6. Shoes (America, England), ballpoint pens (Australia).

7. No.

8. Pools and basketball courts at people's homes.

9. Because of the high value of the yen, we can travel overseas and buy things cheaply. It seems that importing a lot of rice has become a problem, but I would like us to fairly and calmly consider the American point of view as well as the Japanese point of view and then come up with a solution. Through the U.S. trade imbalance, Japanese were able to export electronics, cars, etc., but because Japan also currently faces adverse business conditions, I would like us to also think about our situation.

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QUESTIONNAIRE RESPONSES

Response #4
The following responses were translated from Japanese to English.

NAME: Takashi
GENDER: male
GRADE: 10th

1. Popular music and rock, and occasionally classical. I have listened to music from other countries. Beatles.

2. Any kind of food is good. The Japanese foods that I like are *sushi* [vinegared rice with fish and/or vegetables] and *okonomiyaki* [a flat pancake-like food made of batter and various ingredients]. The American food that I like is hamburgers. Mos Burger [Japanese hamburger chain] is my favorite fast food restaurant.

3. Volleyball. Listening to music.

4. I don't have a particular favorite movie. *The Fugitive, Jurassic Park, Back to the Future.*

5. Mathematics, English, physical education, Japanese language, science, social studies/history.

6. Shoes, clothes, food products, cars from China, Korea, America, and Singapore.

7. No.

8. Large nationally owned lands and parks.

9. I think that America is too forceful towards Japan and it looks down on Japan. In trade and in government, it needs to act from a position that is more fair.

QUESTIONNAIRE RESPONSES

Response #5

The following responses were translated from Japanese to English.

NAME: Hiroshi
GENDER: male
GRADE: 10th

1. For instance, I like popular music and classical. As for foreign music, I have mainly listened to American music—Whitney Houston, Mariah Carey, Simon and Garfunkel.

2. Restaurant—pizza places and steak restaurants.
   Japanese food—*mochi* [a rice cake made from glutinous rice], broiled fish.
   American fast food—McDonald's.

3. Playing music (piano and guitar). Listening to music.

4. I don't have a particular favorite movie. I like American movies, which I think are especially interesting—*Back to the Future, Star Wars, Terminator.*

5. Mathematics, English, physical education, Japanese language, science, social studies/history.

6. Clothes, shoes, books, movies. China, Korea, Taiwan, etc.

7. No.

8. Large houses, the NBA [National Basketball Association] and the NFL [National Football League], higher quality professional sports, underground mineral resources.

9. By improving the quality of U.S.-manufactured goods, the U.S. trade deficit can be reduced. This imbalance is the overwhelming issue in U.S.-Japan trade. We must have more equal trade. I am opposed to the liberalization of the rice market because of the possibility that farming households will go out of business.

QUESTIONNAIRE RESPONSES

Response #6
The following responses were translated from Japanese to English.

NAME: Hiroaki
GENDER: male
GRADE: 10th

1. Classical. I also like popular music (especially Whitney Houston's songs).
2. I like Western restaurants. Japanese food—*sukiyaki* [beef and vegetables boiled in soy-flavored sauce], *chirashi-zushi* [vinegared rice with many kinds of ingredients arranged on top]. I don't really have a good idea about which foods are American.
3. Playing the piano.
4. *Back to the Future.* (I haven't seen other American movies, but this movie was funny.)
5. Mathematics, English, physical education, Japanese language, science, social studies/history.
6. There are many clothes that are manufactured in China, Korea, Thailand.
7. No.
8. Wide and open land. Long vacations.
9. In order to deepen U.S.–Japan relations, trade is important. However, Japan must also be self-sufficient, so it is a difficult problem.

QUESTIONNAIRE RESPONSES

Response #7
The following responses were translated from Japanese to English.

NAME: Mikiko
GENDER: female
GRADE: 10th

1. Popular music. I don't listen to much music from other countries.

2. I like Japanese food. It is good because it is light.
   Japanese Food—*chawanmushi* [steamed egg custard in a cup with various ingredients in it].
   American Food—pizza (It is very good) and bread.
   Fast Food—Mister Donut.

3. I like playing volleyball. I also like reading magazines.

4. *My Girl.*

5. Mathematics, English, physical education, Japanese language, science, social studies/history.

6. Clothes—from China, Taiwan, America. Cars. Gum, etc.

7. No.

8. There is a lot of vacation time. Yards are big.

9. Concerning the problem of the liberalization of rice imports, I think that it would be good if we can interact in a way that both of our countries can consent to.

QUESTIONNAIRE RESPONSES

Response #8
The following responses were translated from Japanese to English.

NAME: Masayuki
GENDER: male
GRADE: 10th

1. Popular, Rock. I listen to music from other countries. The artists that I listen to are: Sex Pistols, Michael Jackson, etc.

2. My favorite food is Japanese food. My favorite Japanese food is *sushi* [vinegared rice with fish and vegetables]. My favorite American food is a big sandwich. My favorite fast food restaurant is Mos Burger [a Japanese hamburger chain].

3. Baseball.

4. Western Movies—*Unforgiven, Major League, Total Recall, Twin Peaks.*

5. Mathematics, English, physical education, Japanese language, science, social studies/history.

6. Clothes, gum, cars.

7. No.

8. Nice baseball stadiums, long summer vacation, beautiful people that look like Audrey Hepburn.

9. I think that it would be nice if from now on the United States and Japan could have a good relationship.

QUESTIONNAIRE RESPONSES

Response #9
The following responses were translated from Japanese to English.

NAME: Natsuko
GENDER: female
GRADE: 10th

1. Popular music. I may listen to music from other countries, but I am not really sure who sings what songs.

2. Japanese food. *Zosui* [a kind of porridge of rice, vegetables, etc.] Fast Food—(Hamburgers, etc.), McDonald's.

3. Reading books and magazines, watching videos.

4. *Roman Holiday* [an Audrey Hepburn film].

5. Mathematics, English, physical education, Japanese language, science, social studies/history.

6. Clothes, office supplies, shoes, candy, cars, watches.

7. No.

8. No uniforms (for students), vacation, houses with large yards.

9. The problem of food product regulation in other countries—I would like us to think about how agricultural chemicals and pesticides can affect our health. The liberalization of rice imports will allow more and more American rice to enter Japan, but no matter how cheap it is, I do not want to eat rice that has been grown with chemicals.

QUESTIONNAIRE RESPONSES

Response #10
The following responses were translated from Japanese to English.

NAME: Takuya
GENDER: male
GRADE: 10th

1. Punk Rock and Ska, etc. The Jam, Sex Pistols.

2. Chinese Restaurants. *Tarachiri* [a type of pot dish with cod fish]. *Fugu* [blowfish], although I haven't yet tried it. Hamburgers. Lotteria Burgers and Yoshinoya Teriyaki Beef Bowl.

3. Soccer.

4. Musicals. *Chitty Chitty Bang Bang*.

5. Mathematics, English, physical education, Japanese language, science, social studies/history.

6. Cars, clothes.

7. No.

8. Large houses (with tall ceilings). Large sport fields at school.

9. Japanese people must improve their relations with the rest of the world. Japanese people know too little about their own past. They need to do more than learn about this, they not only need to overcome their own selfishness, but I want Japan to do things in a way that will be beneficial to the rest of the world.

QUESTIONNAIRE RESPONSES

Response #11
The following responses were translated from Japanese to English.

NAME: Tetsuya
GENDER: male
GRADE: 11th

1. Classical. I have heard some music from other countries.
2. Family Restaurants. *Sushi* [vinegared rice with fish and/or vegetables]. Hamburgers. Mos Burger [a Japanese hamburger chain].
3. Playing musical instruments.
4. *Major League.*
5. Mathematics, English, physical education, Japanese language, science, social studies/history.
6. Cars, motorcycles from America and Germany.
7. No.
8. Devices to protect yourselves from nuclear weapons. I think that it would be good if antinuclear weapon devices were sold.
9. We must protect our good relations with America. I think that it would be good to make the proportion of imports and exports as equal as possible.

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QUESTIONNAIRE RESPONSES

Response #12
The following responses were translated from Japanese to English.

NAME: Chikara
GENDER: male
GRADE: 11th

1. Mostly rock. Foreign singers [I have listened to] are Iron Maiden, Guns and Roses, etc.

2. I like *ramen* [Chinese style noodles in a broth] restaurants. Japanese foods I like are *ramen* and *sushi* [vinegared rice with fish and/or vegetables]. Steak is the food from other countries that I like.

3. Reading, watching movies, sleeping.

4. *Terminator II* was good.

5. Mathematics, English, physical education, Japanese language, science, social studies/history.

6. Cars, ballpoint pens from the United States and Germany.

7. No.

8. Nuclear fallout shelters.

9. I feel it would be good for Japan to moderate its exports.

QUESTIONNAIRE RESPONSES

Response #13
The following responses were translated from Japanese to English.

NAME: Kayoko
GENDER: female
GRADE: 11th

1. Hip Hop and Reggae.

2. Denny's. Japanese food I like is *sushi* [vinegared rice with fish and/or vegetables]. The American food I like is pasta. Fast food restaurants—McDonald's and Mos Burger [Japanese hamburger chain].

3. Dancing.

4. *Aladdin*.

5. Mathematics, English, physical education, Japanese language, science, social studies/history. I am studying Chinese on my own.

6. Cosmetics and fingernail products. Chocolate and other candy. Mostly from the United States. Perfume is from France.

7. I am not sure.

8. Persons with generous hearts.

9. I think that it would be good if, taking the import of rice from the United States as an opportunity, Japan makes the economic wall between us thinner.

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QUESTIONNAIRE RESPONSES

Response #14
The following responses were translated from Japanese to English.

NAME: Tatsuya
GENDER: male
GRADE: 11th

1. John Lennon, Billy Joel, Elton John, Kenny Loggins.

2. If it is Japanese food, then I like *sushi* [vinegared rice with fish and/or vegetables]. If it is American food, I like hamburgers. McDonald's.

3. Since now there is a pro soccer league in Japan, I like going to soccer matches. When I am at home, I read comic books while listening to music. Talking to my girlfriend on the phone.

4. *Jurassic Park, Home Alone 1* and *2, Die Hard, Twins.*

5. Mathematics, English, physical education, Japanese language, science, social studies/history.

6. Clothes from China, soccer balls from Taiwan.

7. No.

8. [no answer]

9. I think that by continuing international trade, the United States and Japan can make each other's countries better. But on the other hand, since each country has a different way of thinking, there may be some difficulties. But still, it is important to continue international trade.

QUESTIONNAIRE RESPONSES

Response #15
The following responses were translated from Japanese to English.

NAME: Toshiko
GENDER: female
GRADE: 11th

1. Popular music. Beatles—"Let it Be."
2. I do not go to restaurants. *Tempura* [a variety of deep-fried foods]. Fried chicken.
3. Listening to music, going for walks.
4. *Back to the Future.*
5. Mathematics, English, physical education, Japanese language, science, social studies/history.
6. Clothes (America), European tea (France), coffee (Brazil).
7. No.
8. School buses.
9. I think that we should give trade liberalization a try. Japan does not allow free trade in rice, but I think that it would be alright to try it for one or two years.

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QUESTIONNAIRE RESPONSES

Response #16
The following responses were translated from Japanese to English.

NAME: Kazuya
GENDER: male
GRADE: 11th

1. Madonna, Mariah Carey, Michael Jackson, Prince, Rolling Stones, Beatles, David Bowie.

2. *Sushi* [vinegared rice with fish and/or vegetables]. Steak and hamburgers. McDonald's.

3. Listening to music, playing video games, sports (tennis).

4. *The Fugitive, Jurassic Park, Ghosts, Bodyguard, Dances with Wolves.*

5. Mathematics, English, physical education, Japanese language, science, social studies/history.

6. Handbags, pants, belts, shoes, watches, liquor, etc.

7. Not especially.

8. Freeways, wide roads, NBA [National Basketball Association] and NFL [National Football League.

9. I would like for both countries to not just think about themselves, but also about the other country.

QUESTIONNAIRE RESPONSES

Response #17
The following responses were translated from Japanese to English.

NAME: Rie
GENDER: female
GRADE: 11th

1. Rock, Beatles, the Stones.
2. *Soba* [buckwheat noodles] restaurants, fruit, seafood, and mushrooms.
3. Reading and writing, shopping, sewing.
4. The *Rupan III* series [A series of animated Japanese movies], *The Goonies*, *The Sonata*.
5. Mathematics, English, physical education, Japanese language, science, social studies/history.
6. Oranges, beef, rice, etc. from America.
7. No.
8. To us, the land seems so big.
9. There are reports that food products from America have a large quantity of chemicals that can cause cancer. I think that this is very scary.

QUESTIONNAIRE RESPONSES

Response #18
The following responses were translated from Japanese to English.

NAME: Shin
GENDER: male
GRADE: 11th

1. Rock. I have listened to music from other countries. Nelson and Damn Yankees—they both have appeared in commercials for Levi's jeans.
2. *Sushi* [vinegared rice with fish and/or vegetables] bars. *Sushi*. Pizza. McDonald's.
3. Badminton, horse racing.
4. I like movies by Steven Spielberg. *Jurassic Park, E.T., Back to the Future I, II,* and *III.*
5. Mathematics, English, physical education, Japanese language, science, social studies/history.
6. Badminton racquets from Taiwan. Shoes from America. Levi's jeans from America.
7. No.
8. Not really.
9. I think that up until now Japan has exported too much to America. Japan is exporting cars to America, but because Japan buys only agricultural products from America the trade cannot be balanced. Therefore, I think that Japan must cut back on its exports.

QUESTIONNAIRE RESPONSES

Response #19
The following responses were translated from Japanese to English.

NAME: Yasuyuki
GENDER: male
GRADE: 11th

1. Rock. I have heard music from other countries. Beatles—"Yesterday."
2. *Ramen* [Chinese style noodles in a broth] shops. The Japanese food that I like is *niku jaga* [a type of meat and potato dish]. I don't have a fast food restaurant that I especially like.
3. Reading books.
4. *Back to the Future.*
5. Mathematics, English, physical education, Japanese language, science, social studies/history.
6. Blue jeans.
7. I don't know anyone working in international trade.
8. I would like to have a greater number of TV channels (like cable TV in America).
9. I do not know much about this subject, but I do think that it would be okay if Japan imported more rice from America.

QUESTIONNAIRE RESPONSES

Response #20
The following responses were translated from Japanese to English.

NAME: Atsushi
GENDER: male
GRADE: 11th

1. Rock. Blues and popular music. Mariah Carey, Mr. Big, U2, Toto, Whitney Houston, Def Leopard, Hammer, Duran Duran.

2. I do not have a particular favorite restaurant. Noodles, *sushi* [vinegared rice with fish and/or vegetables] and food with rice are the Japanese foods that I like. Because I do not often eat at fast food restaurants, I really do not have a favorite.

3. Reading comics, sleeping, listening to the radio, and playing video games.

4. *Sayonara* [*Good-bye*] *Game, Platoon, Ghost. The Fugitive,* and *A River Runs Through It,* although I have not yet seen these two movies.

5. Mathematics, English, physical education, Japanese language, science, social studies/history.

6. Tobacco, clothes, watches.

7. No.

8. Land for farming.

9. The fact that Japan's trade surplus with America seems very high is a problem area, and I think that American people do not have good feelings about Japan. For instance, even if they were told to buy a Japanese car, I think that the average American person still would not buy it. I think that the only ones who profit by this are the business enterprises.

QUESTIONNAIRE RESPONSES

Response #21
The following responses were translated from Japanese to English.

NAME: Noriko
GENDER: female
GRADE: 11th

1. I listen to Mariah Carey, En Vogue.

2. Denny's, etc. Any restaurant that anyone can feel comfortable in. *Niku jaga* [A meat and potatoes dish]. French Fries. Mos Burger [A Japanese fast food chain].

3. Since I am very busy, I do not really have the time for hobbies, but when I do have the time I like *karaoke* [singing with recorded background music].

4. *Silence of the Lambs.*

5. Mathematics, English, physical education, Japanese language, science, social studies/history.

6. Clothes. There are many brands that are imported.

7. No.

8. Land. Freedom.

9. I would like imports from America to increase. We would have access to more products. So if trade would become more free, we would be able to buy many American products at a cheaper price.

QUESTIONNAIRE RESPONSES

Response #22
The following responses were translated from Japanese to English.

NAME: Hiroaki
GENDER: male
GRADE: 10th

1. I iisten to popular and classical music like "Stand by Me."

2. Chinese food, hamburgers, *sashimi* [sliced raw fish], *sushi* [vinegared rice with fish and/or vegetables], McDonald's *yakiniku* [broiled or grilled meat, usually thinly sliced], *udon* [white noodles made from wheat flour].

3. Listening to music. Sports.

4. *Jurassic Park, Home Alone, Back to the Future, Robocop.*

5. Mathematics, English, physical education, Japanese language, science, social studies/history.

6. Ballpoint pens (Switzerland), watches (Switzerland), mufflers and scarves (France), shoes (England).

7. No.

8. Big parks. Pools and basketball courts at people's homes. Big houses. Big families.

9. Since Japan and the United States have a certain historical background together, I think that there will be small disagreements. For instance, there is the problem of automobiles. America is trying to increase its exports to Japan, but from the Japanese point of view, it is unfair to be forced to buy poor quality parts from the United States. Japan must also try to think about the American point of view, but it is not good to have aspects of military power and security relations influence our trade policy. I think that to have fair trade, we must think about our trading partner's point of view. If we are able to bring about various improvements in our trade relationship on a global scale, it will be easier to attain peace in this world.

QUESTIONNAIRE RESPONSES

Response #23
The following responses were translated from Japanese to English.

NAME: Ayako
GENDER: female
GRADE: 10th

1. Popular, classical, and a little hard rock. Whitney Houston, Guns and Roses, Mariah Carey, Boys to Men, Ben E. King, Carpenters. And a lot of different classical.

2. Restaurant: Italian food.
   Japanese food: *sushi* [vinegared rice with fish and/or vegetables], Japanese candy.
   Fast food restaurant: Mister Donut.

3. Music, movies, TV, reading, and writing.

4. *Kramer vs. Kramer, Bodyguard, Stand by Me, Indiana Jones, Pretty Woman.*

5. Mathematics, English, physical education, Japanese language, science, social studies/history.

6. Clothes (from many countries). Food products (from many countries).

7. No.

8. It is very good to have three-month-long summer vacations. Land. Twelve years of schooling. A system of government divided into three branches (I would like it if the citizens of Japan were able to elect their Prime Minister). [instead of a presidential-style national election, the legislative branch in Japan picks the prime minister, as England does.]

9. America is criticizing Japan too much about the rice market, even though every country has a problem with some aspect of GATT [General Agreements on Tariffs and Trade] rules. For instance, America has quotas on the number of Japanese cars that can be imported. Because of too many chemicals on food products, a monkey was born in a zoo with serious birth defects. Japan depends too much on America, especially in the case of food. Therefore, when relations with the United States become unstable, they have the power to directly influence our action. That is why Japan has a weaker position than the United States, which only depends on us for machines.

QUESTIONNAIRE RESPONSES

Response #24
The following responses were translated from Japanese to English.

NAME: Masaaki
GENDER: male
GRADE: 10th

1. Classical and pops.
   Beatles—"Let It Be," "Yesterday."
   Whitney Houston—"I Will Always Love You."

2. Chinese Restaurants. *Sashimi* [sliced raw fish] and *sushi* [vinegared rice with fish and/or vegetables]. Steak. McDonald's.

3. Listening to music, especially classical. Watching TV.

4. Japanese—*Heaven's Castle, Laputa.*
   American—*Last of the Mohicans, Bodyguard.*

5. Mathematics, English, physical education, Japanese language, science, social studies/history.

6. CDs, Musical instruments (trombones are made in the United States).

7. I have an uncle who works for a trading company that is currently in Belgium.

8. Large houses with yards.

9. Concerning the rice problem, I understand America's requests for Japan to open up its rice market (to American rice), but I feel that if the market is opened up, over half of the farming households in Japan would probably go bankrupt. I would like the U.S. side to think about these conditions that Japan faces. Of course, because Japanese industry is causing the United States problems through its exports, I think that we should also do what we can to help the people in the United States.

QUESTIONNAIRE RESPONSES

Response #25
The following responses were translated from Japanese to English.

NAME: Kennosuke
GENDER: male
GRADE: 10th

1. Classical, jazz, pops. I like any kind of music. Recently, I have been listening to classical (Chopin, etc.).

2. My favorite restaurant is Yoshinoya [a restaurant where they serve sliced *teriyaki* beef over rice]. *Okonomiyaki* [a Japanese-style pancake made of batter and various ingredients]. McDonald's.

3. Swimming.

4. *Bodyguard, Rambo, Rocky, Superman.*

5. Mathematics, English, physical education, Japanese language, science, social studies/history.

6. Foreign-made cars.

7. No.

8. Basketball courts, lots of land, pools in homes.

9. America is too pushy. I don't like it. It tries to control Japan, and not only Japan, but other countries as well. Certainly Japan has a trade surplus, but that is because of the everyday effort and hard work of each Japanese person. Japan does not deserve this blame from other countries. Japan has many trade-related problems with other countries, such as the rice problem, and the high value of the yen, but the countries should mutually speak about the problems and solve each one in its own way.

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QUESTIONNAIRE RESPONSES

Response #26
The following responses were translated from Japanese to English.

NAME: Asako
GENDER: female
GRADE: 11th

1. New music, and things like rock. Beatles. Whitney Houston.

2. *Asakuma* Restaurant. *Soba* [buckwheat noodles] and *kishimen* [flat noodles made from wheat flour]. Hamburgers. Lotteria [a Japanese hamburger chain] and Mister Donut.

3. Listening to music, playing with my pet dog and cat. Watching TV. Reading books and magazines.

5. Mathematics, English, physical education, Japanese language, science, social studies/history.

6. CDs, furniture (made in Canada), lamps.

7. My father—He advises and does research on the importing, taxes, and documentation of Formula One race cars and other things.

8. Knott's Berry Farm (the amusement park that has Snoopy), easygoing atmosphere, a long summer vacation all at once.

9. I wish that the Japanese government would not just listen to what the United States says, but also express its views fairly and meet and talk with America. (Concerning the importing of rice, oranges, and other food products, and the export of cars, etc.).

QUESTIONNAIRE RESPONSES

Response #27
The following responses were translated from Japanese to English.

NAME: Ken
GENDER: male
GRADE: 10th

1. I like classical and jazz about equally. But my favorite music is *minyo* [folk ballads]. Billy Joel's "Honesty."

2. My favorite restaurant is Chinese. And my favorite Japanese food is *katsudon* [a pork cutlet on rice in a bowl].
   American food—cinnamon cake.
   Fast Food—Mos Burger [a Japanese hamburger chain].

3. Gymnastics.

4. *The Sound of Music.*

5. Mathematics, English, physical education, Japanese language, science, social studies/history.

6. There are imported products in Japan, especially from Korea (precision machinery).

7. I don't have any friends or relatives [working overseas].

8. I would like it if Japanese schools let the students pick their classes [like in America].

9. I think it would be good to have freer trade overall. If Japan makes high quality precision machinery, then America must react to that by developing better technology. I think that if the United States can assure Japan that its rice is safe and importing rice makes economic sense, then of course the United States will be able to sell rice even in Japan. However, we must proceed very carefully in regards to safety. Even if dioxins and other harmful chemicals are sprayed on food goods, the average person will not be able to tell. So I would like to make sure that Japanese customs checks the rice.

   I have really gotten off track, but actually I recommend making trade to Japan more free.

QUESTIONNAIRE RESPONSES

Response #28
The following responses were translated from Japanese to English.

NAME: Kayo
GENDER: female
GRADE: 11th

1. Popular, classical (Bach, Straus), and rock. Whitney Houston—"I Will Always Love You."

2. Royal Host.
   Sushi [vinegared rice with fish and/or vegetables], Japanese candy.
   Hamburgers and fried chicken.
   McDonald's and Kentucky Fried Chicken.

3. Listening to music. Running. Reading.

4. *Dances with Wolves. The Fugitive. Jurassic Park. Bodyguard.*

5. Mathematics, English, physical education, Japanese language, science, social studies/history.

6. Soap—France.
   Matsutake Mushrooms [a type of mushroom that grows at the foot of Japanese red pine trees]—Korea.
   Athletic shoes—China.
   Beef—America or Australia.

7. My uncle on my mother's side works in management for a fertilizer company.

8. Long summer vacation. Large areas of land (making it possible to produce a lot of food).

9. I think that Japan and the United States have a give-and-take relationship. But Japan exports manufactured goods that are not absolutely necessary for living. America exports food that Japan must have to live, so if America's ability to negotiate is reduced, then it will be very dangerous for Japan. And also, Japan tends to depend too much on the United States for its food and mineral resources so Japan has to increase its own production of these things.

QUESTIONNAIRE RESPONSES

Response #29
The following responses were translated from Japanese to English.

NAME: Azusa
GENDER: male
GRADE: 10th

1. I like Japanese music.
   Music from other countries—I like the Carpenters the best.

2. Favorite Restaurant—Ebisuya [a Japanese restaurant specializing in handmade noodles].
   Favorite Food—*udon* [white noodles made from wheat flour], broiled fish, egg rolls.
   American Food--hamburgers.
   Fast Food—McDonald's.

3. Playing the piano. Listening to music.

4. Favorite movies: Animation—*Doraemon* [Japanese cartoon series about a magical cat]. Others—*Home Alone*.

5. Mathematics, English, physical education, Japanese language, science, social studies/history.

6. Beef, oranges (food products), clothes, household appliances.

7. I know someone who works for a trading company.

8. Compulsory education through high school. The new school year starting from September. Having two days off every week.

9. America is criticizing Japan for its trade surplus, but I think, "how about America making its products so good that they don't lose out to competition within their own country?"

   There are many things that Japan and America can learn from each other.

   President Clinton says too many bad things about Japan.

QUESTIONNAIRE RESPONSES

Response #30
The following responses were translated from Japanese to English.

NAME: Anano
GENDER: female
GRADE: 10th

1. I like music in musical comedies. Yes, I have [listened to music from other countries]. I love Julie Andrews and all of her songs.

2. Italian Restaurants. Rice, *miso* [soy bean paste] soup. Domino's Pizza, Burger King, Buddy's.

3. Playing sports, playing the violin, listening to my favorite music, reading, sleeping, chatting with friends.

4. *The Sound of Music.*

5. Mathematics, English, physical education, Japanese language, science, social studies/history.

6. Many, many things in many, many parts of the economy.

7. Yes, my father and uncle work for Toyota Motor Company. And I have been abroad to Michigan, U.S.A., and lived there for two years. It was the best experience.

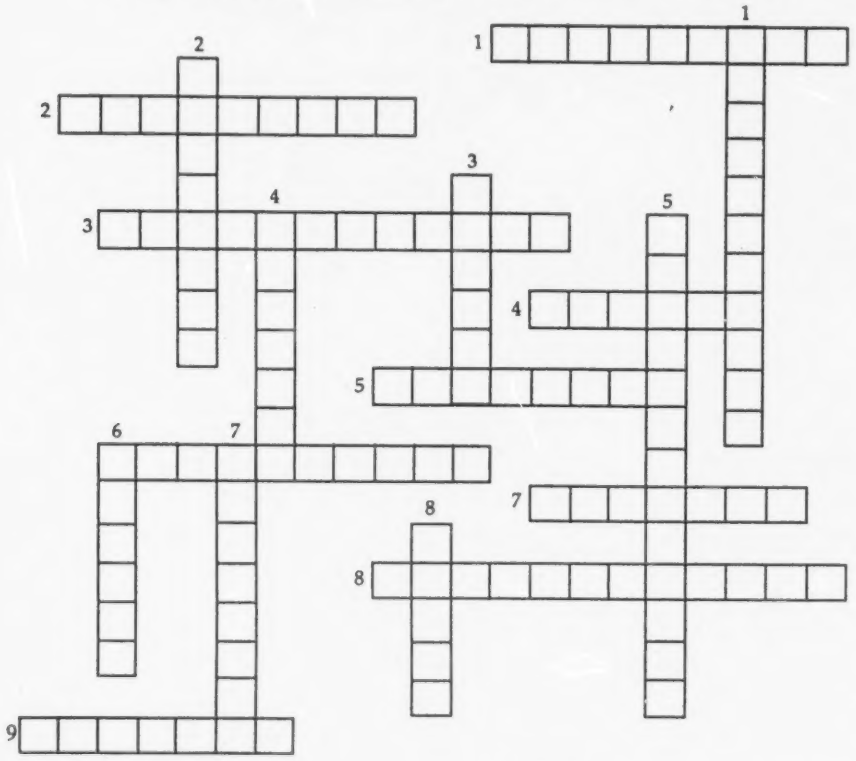
8. Recycling system (of cans, for example). Supermarkets in the United States. A school system that allows you to choose your classes, etc.

9. We have a situation in which there are many problems that need to be solved. (The liberalization of the rice market, trade friction [Japanese large trade surplus]).

   The liberalization of rice: America is clearly blaming us about rice, but there are some things that Japan cannot compromise.

   Japan's large trade surplus: The average consumer family does not see any of this large profit from trade. The profit remains with the very few number of people who have power. I wish that other people would understand that.

TRADE WORDS: A CROSSWORD PUZZLE



Across

1. Inputs used to produce goods and services.
2. Trade without any restrictions.
3. A cooperative enterprise between two companies to manufacture goods or provide services.
4. A good or service that a nation sells to other nations.
5. _____ advantage refers to the situation when one country can produce a product more efficiently than another country.
6. Putting money, capital, or other resources into a business, real estate, stocks, bonds, etc., for the purpose of obtaining future income or profit.
7. Resources (such as factory buildings, equipment, human, raw materials) that may be used to create other goods.
8. These types of laws specify that goods sold within a country must have a certain percentage of domestically produced parts in order to be considered a domestic product instead of an import.
9. _____ trade refers to when governments negotiate specific amounts of trade that will be carried out between nations, regardless of market conditions.

Down

1. _____ advantage refers to the situation when one country can make two or more products more efficiently than another country, but the advantage is greater in one of the products.
2. Work or duties performed for others.
3. Limits imposed on the amount of commodities that can be imported annually.
4. Taxes imposed by the government on imported goods.
5. Trade restrictions or trade barriers imposed by the government to keep imports out or raise import prices to "protect" domestic industry.
6. A good or service that a nation buys from another nation.
7. The rate of the number of units of one currency that can purchase a unit of another country's currency.
8. Physical articles or products that can be traded.

Words used in puzzle: protectionism, joint venture, services, resources, comparative *advantage*, absolute *advantage*, quotas, free trade, local content *laws*, import, goods, tariffs, export, exchange *rate*, capital, investment, managed *trade*.

TRADE WORDS: ANSWERS

Across

1. resources
2. free trade
3. joint venture
4. export
5. absolute
6. investment
7. capital
8. local content
9. managed

Down

1. comparative
2. service
3. quotas
4. tariffs
5. protectionism
6. import
7. exchange
8. goods

THE BIG ONE

The U.S. and Japanese economies are tightly bound together. In addition to trading products and services, the United States and Japan heavily invest in each other. When economies are closely knit, such as those of the United States and Japan, their performances tend to mirror each other; if one economy takes off, it may boost the other economy. Likewise, if one economy falters, it could slow the other one down as well. Investors from the United States and Japan own significant amount of factories, subsidiaries, properties, etc., in each other's countries, linking their fates to each other's success. In addition, companies from one country may invest in assets such as overseas stocks and bond markets. The following article illustrates this interdependence. After reading it, answer the questions that follow.

A Quake To Rock The World

Business Section. By Michael Berger.
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Thursday, November 23, 1989
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The last great earthquake to strike Tokyo devastated the Japanese economy. The next one could deal a massive blow not only to Japan, but the rest of the world.

Bankers, government officials, and insurance executives don't like to talk about this disaster scenario, but they all agree that a major earthquake in Tokyo would force Japanese to liquidate [note: "liquidate" means to sell off assets such as stocks for cash] at least part of the massive wealth which they have spread around the world's stock and bond markets in recent years. "A major earthquake in Tokyo will cost hundreds of billions of dollars in damage," said a European executive who asked not to be identified. "When the Japanese start calling in [note: "calling in" means to sell overseas assets in order to bring the cash to one's own country] their overseas assets to help pay for the massive reconstruction, there are going to be shocks in London, New York, and markets around the world."

Both Japanese and foreign financial markets sources confirmed that assessment. A study by Tokai Bank estimated that an earthquake equivalent to the 8.3 magnitude quake which devastated most of Tokyo and Yokohama in 1923 would cause $570 billion worth of damage in the greater Tokyo area. The cost of replacing all the buildings, factories, equipment, and human talent lost in such a catastrophe, the bank report said, would be about $840 billion at current exchange rates. That is nearly triple the value of all Japanese overseas assets at the end of 1988.

"This does not mean that such huge amounts would be withdrawn from overseas placements," [note: "overseas placements" means capital in the form of stocks, bonds, etc., that is invested abroad instead of in the domestic market] cautioned a Bank of Japan executive. "We are fully aware of the undesirable effect such actions would have

on overseas financial markets." But it is likely, he said, that some foreign assets would have to be liquidated to pay the heavy costs of reconstruction.

Regardless of the level of Japanese liquidation in the event of a major quake, the prospect of any such disruption dramatizes the increasing interdependence of the world money markets.

While the worldwide economic consequences of a major earthquake in Tokyo are enormous, there has been little coordinated discussion between the American and Japanese governments about how to avert a financial aftershock. "I don't believe anyone on our side has given this a serious look," said a U.S. government official, "but it is an issue worth studying. Japanese investments (in the form of U.S. treasury bonds) are helping finance the budget deficit."

Questions:

1. How would you be hurt if such a large earthquake devastated Japan's manufacturing capabilities? How might the Japanese be affected if such a similar disaster hit, for example, New York, Los Angeles, Chicago, or other major industrial or agricultural regions of the United States?

2. How would Japan be affected if the United States were facing a major recession (keep in mind that the United States is by far the largest customer for Japanese goods)? How would the United States be affected if a major recession hit Japan? If you are from a country other that the United States or Japan, how would your country be affected by recessions in either of those countries?

3. How does the scenario described in this article demonstrate interdependence? Can you think of any other scenario that would do the same (it doesn't have to be so dramatic)?

Lesson 2

THE PROCESS OF TRADE

WITH A FOCUS ON THE INTERNATIONAL EXCHANGE RATE SYSTEM

Organizing Questions

- What are some of the basic steps involved in international trade?
- What are some of the differences in the process of trade between the United States and Japan?
- What role do exchange rates play in international trade?
- What effects do exchange rates have on the trade imbalance between the United States and Japan?

Introduction

In Lesson 1, students examined economic interdependence, with a focus on the U.S.–Japan economic relationship, and were introduced to some of the concepts and terms of international trade. Lesson 2 introduces students to the trading process, with a focus on the concept of exchange rates.

In the opening activity of Lesson 2, students are asked to think about some of the steps they used during the Resource Trading Game in Lesson 1. Through this activity, students are introduced to the major steps involved in trading. Other activities focus on the differences in the process of trade between the United States and Japan, the concept of exchange rates, and the trade imbalance between the United States and Japan. This lesson should take 2-3 class periods.

Objectives

knowledge

- to identify some of the basic steps involved in international trading
- to describe the effects of exchange rates on international trading
- to learn about the effect of exchange rates on the U.S.–Japan trade imbalance

attitude

- to understand that exchange rates affect people not only on an international and national level (such as trade imbalances between countries) but also on a personal level (such as the cost of a particular product)

skill

- to interpret periodical and newspaper articles
- to convert exchange rates

Materials:

- Handout #1: Steps of International Trade, one per group
- Handout #2: Five Steps of International Trade, one per student

- Handout #3: Japanese Process of Trade vs. U.S. Process of Trade, one per group
- Handout #4a: McDonald's Menu from Japan, one per group
- Handout #4b: McDonald's Menu from Japan (English Translation), one per group
- Handout #5: Exchange Rates: Part 1, one per group
- Handout #6: Exchange Rates: Part 2, one per group (optional)
- Handout #7: Exchange Rates: Part 3, one per group (optional)
- Handout #8: Articles from *The Japan Times*, one per group
- Handout #9: Excerpts from *Japan Inc.*, one per group
- butcher paper

Procedure

1. Inform students that Lesson 2 introduces the basic steps of international trade. In addition, other activities focus on the concept of exchange rates, the differences in the process of trade between the United States and Japan, and the trade imbalance between the United States and Japan.

2. Have students form the same groups as in the Resource Trading Game from Lesson 1. Distribute Handout #1, Steps of International Trade, and have students do the first activity—discuss and record some of the steps of trade from the Resource Trading Game. (Note: If the Resource Trading Game wasn't used, have students brainstorm, discuss, and list possible steps of international trading on Handout #1.) Allow students about 15-20 minutes for this task. Following this, begin a discussion with the whole class by asking some of these questions:

   - When the game started, what did you do first?
   - What were some of the most difficult steps in obtaining what you wanted?
   - How could you have made the trading process easier?
   - How would real international trading be different from the process you went through in the game?

   After answering the questions, allow 20-30 minutes for students to complete the second activity of Handout #1. Each group will need a sheet of butcher paper for this activity.

3. Following the completion of Handout #1, distribute Handout #2, Five Steps of Trade, to each student. Have students in their groups compare their five steps of trade to the five steps of international trade listed on Handout #2. Have each group share a summary of the differences and similarities as well as information on the butcher paper with the rest of the class. As an option, make an overhead transparency of Handout #2 and lead a class discussion on the steps of international trade.

4. Distribute Handout #3, Japanese Process of Trade vs. U.S. Process of Trade, to each group. Handout #3 outlines some of the differences in the process of trade between the United States and Japan and introduces the role of exchange rates in the process of trade. Have groups read and discuss the handout. Inform students that the rest of

the lesson will focus mainly on exchange rates. Point out that exchange rates facilitate trading by providing a conversion for different currencies.

5. Pass out Handout #4a, McDonald's Menu from Japan, to each group. Ask the class if they can identify some of the items in the menu. Use Handout #4b, McDonald's Menu from Japan (English Translation), for a reference. Increasingly, U.S. product brand names are being used frequently enough in Japan that they are becoming household terms (e.g., Coca-Cola, IBM, and Kentucky Fried Chicken) as is true for some Japanese products in the United States (e.g., Sony, Toyota, and Nikon). Ask students how interdependence is shown through the menu. Mention to students that they will be utilizing the McDonald's menu for an activity on exchange rates.

6. For this activity on exchange rates, distribute one copy of Handout #5, Exchange Rates: Part 1, to each group. Handout #5 introduces some of the reasons exchange rates were developed and how they are used in international trade. In the handout, a table of exchange rates is presented. Using this table and the McDonald's menu from Japan, students are asked to complete the problems at the end of the handout. Allow about 30 minutes for this activity. (Note: Handout #5 provides students with a basic understanding of exchange rates. If teachers would like to introduce students to more detailed information on exchange rates, proceed to assign Handouts #6 and #7, explained below in steps 7 and 8 of the procedures. If not, proceed to step 9 of the procedures.)

7. To further introduce students to the concept of exchange rates, distribute Handout #6, Exchange Rates: Part 2, to each group. This handout introduces students to the concept of floating exchange rates and how the supply and demand of currencies in the world market affect their values. A graph of the history of the yen-dollar exchange rate is also provided. The questions at the end of the handout attempt to have students discover why floating exchange rates tend to balance the imports and exports of all countries in the world. Allow about 20 minutes for this activity.

8. Finally, to specifically introduce students to the impact of exchange rates on the U.S.–Japan trade imbalance, distribute Handout #7, Exchange Rates: Part 3, to each group. Handout #7 uses information gained from Handout #6 and relates the concept of the exchange rates to the U.S.–Japan trade imbalance. Handout #7 helps to define the trade imbalance and outlines efforts to reduce the U.S. trade deficit with Japan by the Reagan and the Clinton Administrations using exchange rates. Questions to help students discuss the information in the handout are listed at the end of the handout. Allow about 30 minutes for this activity.

9. As a concluding activity for Lesson 2, distribute Handout #8, Articles from *The Japan Times*, to each group. Handout #8 comprises two articles from *The Japan Times*, a weekly international newspaper. These two articles relate how the fluctuating yen-dollar exchange rate is affecting consumers in both countries. Also distribute Handout #9,

two excerpts from *Japan Inc.*, an informative Japanese comic book that dramatizes economic concepts and situations. The activity following the comic book readings utilizes Handouts #8 and #9. Students will then think of the different effects of the exchange rate on their and other people's lives and create dramatized stories demonstrating the effects of the exchange rates. Students must then create a page or two of comics, illustrating their understanding of exchange rates. Compile the comics and circulate them among the students.

10. Inform students that Lesson 3 examines the benefits of trade with a focus on comparative and absolute advantage.

STEPS OF INTERNATIONAL TRADE

In the Resource Trading Game from Lesson 1, trading resources involved some definite steps and planning. For example, you had to find out if the nation you were in communication with had the resources that you needed before trading could even begin. International trading involves similar steps.

1. List below as many steps of the process of trade as possible based on the Resource Trading Game and/or other information shared in your group. Beside each step, cite a possible job that might be created by that step.

Steps of International Trading: **Possible Job Created:**

2. Group some minor steps into a main step and reduce the list to five main steps. Write this list on a sheet of butcher paper, and beside each main step, draw a picture that represents that step. Think about the jobs that each of these steps might produce in actual international trading to help you develop a representative picture.

Five Steps of International Trade

Listed below are five basic steps involved in international trade.

1. **Identifying and contacting potential customers**
   A company has to find out which foreign companies can use or market their product. This is sometimes done through market research. The company then must contact the foreign company.

2. **Negotiating terms and contract**
   If a foreign company is interested in buying the company's product, negotiations establish the terms of trade, such as quantity, payment, and delivery.

3. **Import processing**
   The goods are unloaded at the foreign countries seaport or airport. Inspection of the goods by customs officials may be required before the goods can be delivered. Also, a government import tax (tariff) may have to be paid.

4. **Transportation and distribution of goods**
   The goods need to be delivered from the port to the foreign company's place of business. The method of distribution is usually determined before the actual shipping of goods begins to ensure that the products will be delivered properly. A foreign distribution company (such as a trucking company) is usually hired to handle the goods.

5. **Paying for the cargo**
   The sales contract usually states whether the payment will be made in U.S. dollars or in the currency of the foreign country. Whichever currency is used, exchange rates will have to be used to convert them.

JAPANESE PROCESS OF TRADE VS. U.S. PROCESS OF TRADE

A U.S. product that enjoys tremendous success in Japan is Kentucky Fried Chicken (KFC), but KFC did not attain success in Japan overnight. The first drive-in KFC in Japan sold less than the equivalent of $30 a day and quickly went out of business. Takeshi Okawara, President of KFC Japan, says KFC soon learned it had to adapt its practices for the Japanese market. KFC began putting walk-in stores in busy shopping districts and changing its menu to fit Japanese tastes. For example, on the KFC menu pictured on page 73, the "new" item listed on the bottom portion of the menu is *yakimusubi* [broiled rice balls]. KFC's attention to the differences in the Japanese market has paid off, and now there are over 1,000 KFC restaurants in Japan.

The experience of KFC in Japan shows how companies need to adjust to doing business in different countries. Just as the United States and Japan have different histories and different cultures, they have different processes of trade and different ways doing business. Some experts blame these differences for the difficulty that U.S. firms often encounter in selling their products in Japan. Some U.S. businesses have found the Japanese process of trade so frustrating that they call it a barrier to fair trade, resulting in friction between the two countries. Because the monetary units of both countries are also different (the United States uses the dollar and Japan uses the yen), monetary issues such as the amount of payment, the type of currency used for payment (the dollar or the yen), and the exchange rate (a measure of one country's currency against that of another country's) are present in almost every step of the process of trade.

The United States has possessed the world's strongest economy and largest market for most of the twentieth century, and it has a relatively open process of trade. Overseas companies can set up business in the United States to sell their products. Some products familiar to you may be a result of overseas companies successfully adapting to U.S. business practices. For instance, Shell Oil is a Dutch company, Nestles is Swiss, and Holiday Inn is British-owned. Japanese companies such as Toyota, Sony, and Honda are now commonplace, but their success in the United States took decades of intense research, establishment of distribution networks, and forming the right business connections.

Doing business in Japan probably requires an even greater amount of time forming connections, building relationships of trust, and researching the market than in the United States. Sometimes researching the Japanese market and forming the right connections can take decades. Some Japanese businesspersons have complained that U.S. firms tend to rush into negotiations, skimming over details, while Japanese firms prefer to slowly build trust and familiarity first and then carefully consider details before a contract is formed. Not surprisingly, some U.S. businesspersons claim that Japanese firms are too slow in making decisions. In addition, U.S. investors and stockholders, who provide U.S. firms with capital, often put a great deal of pressure on companies to gain profits quickly, which can be difficult in Japan. On the other hand,

many large Japanese firms can obtain capital from banks that they are affiliated with, so they do not have to worry as much about quick profits.

Foreign companies also often have problems understanding the Japanese distribution system. In Japan, products get from producers to the shelves of stores through a complex network of shipping companies, warehouses, and intermediaries or "go-betweens." Buyers and suppliers have built strong ties to each other over the years and tend to be very loyal to each other. Often a buyer will not purchase an item from a new supplier, even if a lower price is offered. This makes it very hard for foreign companies to break into the circle of distribution.

Some analysts claim that these differences in the United States and Japanese processes of trade are cultural and based on differences in the ways that Americans and Japanese relate to each other. They may point to the importance of long-term business relationships to the Japanese. Others claim the differences are due to different economic structures, such as the influence of shareholders or the distribution system. Others claim that the differences are the result of one country or the other not "playing fair," for instance, by setting limits on the number of Japanese cars that are sold in the U.S. or limits on U.S. agricultural products sold in Japan.

Whatever the causes, many U.S. businesspersons are not familiar with these differences. Because Japan has become such an important trading partner for the United States and the Japanese market has grown so large, many experts have encouraged more Americans to become familiar with Japan and the Japanese language. In Japan, all students must take six years of English to graduate from high school, while most American high schools do not even teach Japanese. In addition, because Japan has become a leader in technology, some educators suggest that engineers and scientists should also become more familiar with Japan.

In order to smooth out some of the friction caused by the differences in the processes of trade, the governments of the United States and Japan are currently conducting trade talks. Although progress has been made, for instance, Japan now allows U.S. rice to be sold in Japan, most businesses feel that there are still significant barriers to doing business in Japan. However, the reduction of trade barriers alone will not guarantee success in the Japanese market for foreign firms. In order to succeed in Japan, U.S. businesses need to become more familiar with the Japanese process of trade and how it can differ from the U.S. process of trade. Then like KFC did, they will need to adapt to a way of business that is not always like the U.S. process of trade.

Kentucky Fried Chicken Menu from Japan

Kentucky Fried Chicken menu from Japan, reprinted with permission

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McDonald's Menu from Japan

McDonald's menu from Japan, reprinted with permission

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McDonald's Menu from Japan (English Translation)

The following is a translation (with prices) of the items on the McDonald's menu from Japan:

Top row:
- Big Mac: 370 yen
- Teriyaki McBurger: 240 yen

Second row:
- Hamburger: 210 yen
- Cheeseburger: 240 yen
- Filet of Fish: 260 yen

Third row:
- Double Burger: 300 yen
- Double Cheeseburger: 350 yen
- McFried Potatoes: 120 yen (small); 220 yen (large)

Fourth row:
- Chicken McNuggets: 260 yen (5 pieces); 460 yen (9 pieces); 780 yen (16 pieces)
- Hot Apple Pie: 150 yen
- McShakes: 220 yen [flavors: vanilla, strawberry, chocolate, yogurt]
- Sundaes: 180 yen (medium); 100 yen (small) [flavors: blueberry, strawberry, hot fudge]

Bottom left:
- Orange Drink: 200 yen (medium); 140 yen (small)
- Coca Cola, Sprite, Fanta Orange: 220 yen (large); 150 yen (medium); 120 yen (small)
- Corn Potage: 160 yen
- Hot Chocolate: 160 yen

Bottom right:
- Milk: 120 yen
- Coffee: 160 yen
- Ice Coffee: 200 yen (medium); 150 yen (small)
- Ice Tea: 150 yen
- Gift Card (Certificate): 200 yen

EXCHANGE RATES: PART 1

When an American buys a McDonald's hamburger or a Japanese VCR in the United States, that person pays in U.S. dollars. But how does the store that buys the VCRs from Japan pay for its goods? Does the store barter goods that Japan wants, say hamburgers, for the VCRs? The store would then have to establish how many hamburgers would pay for a VCR, and for that matter, every other imported product. This would be too cumbersome and time-consuming. Instead of bartering, countries pay for imported goods using money of either the country that's selling the goods or the country that's buying.

But if the Japanese VCR company received dollars in payment for its VCRs, how does the company use the money in Japan, which uses the yen? To solve this problem, the countries of the world establish exchange rates for their currencies. An exchange rate is a measure of one country's currency against that of another country's. For example, in March 1985, 263 Japanese yen was equivalent to one U.S. dollar. If the Japanese company sold a VCR to someone in the United States on this date, for every dollar, it could get ¥263 (the Japanese symbol for the yen is ¥). In essence, an exchange rate is the price of one currency in terms of another.

Below is a table that gives the value of one U.S. dollar against other foreign currencies. The different values of the dollar for the different dates show that the dollar is constantly changing. On Handout #4, McDonald's menu from Japan, you can see the prices for the various items in yen. Use the following exchange rates table to answer the questions on the next page.

The Value of One U.S. Dollar in Foreign Currency*

Country	February 9, 1993	August 18, 1993	February 9, 1994
Japanese yen	121	102	108
German mark	1.65	1.68	1.76
Swiss franc	1.53	1.49	1.48
French franc	5.57	5.90	5.97
Canadian dollar	1.25	1.32	1.34
Mexican peso	3.097	3.120	3.105

*Figures from *Business Week*, February 21, 1994, August 30, 1993

Questions:

1. Convert 10 of the prices on the Japanese McDonald's menu (using the February 9, 1994, exchange rate) from Japanese yen to U.S. dollars.

2. Assuming that the menu doesn't change, how much more or less does a Big Mac, medium Coke, and small fries cost in dollars on February 9, 1993, compared to February 9, 1994, if the items were bought in Japan?

3. How much more or less money in terms of U.S. dollars did McDonald's in Japan make if it sold two hamburgers and a sundae in February 1993 than in February 1994?

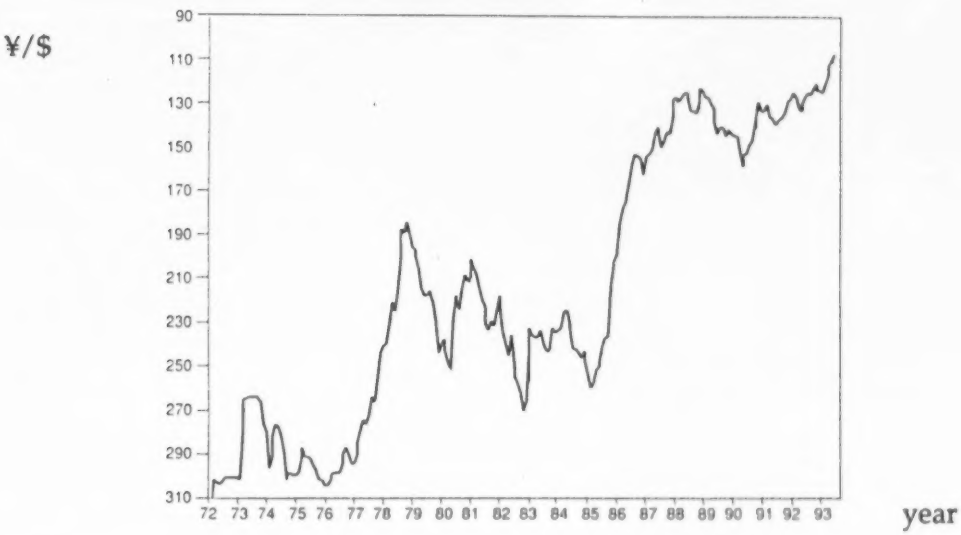
4. Generally, did the value of the dollar go up or down against foreign currency during the period of time in the chart? What can you surmise about the volume of U.S. imports and exports during this time (increase or decrease)?

EXCHANGE RATES: PART 2

Sometimes the value of one country's currency drops in comparison to another. For example, in March 1985, one U.S. dollar was equivalent to ¥215. In October 1985, the dollar was worth ¥48 less than in March. When the dollar drops in value compared to the yen, the dollar has *depreciated* in value while the yen has *appreciated* in value.

Currency exchange rates in the world change as market conditions change. The economic law of supply and demand determines the value of a nation's currency. The value of the U.S. dollar, for example, fluctuates so that the supply of dollars going abroad (to pay other countries for U.S. imports, to make investments in the economies of other countries, etc.) always equals the demand for dollars abroad (to buy U.S. exports, invest in the United States, etc.). Exchange rates that are not fixed by the government but fluctuate according to supply and demand are called *floating exchange rates*. In the world today, exchange rates are constantly changing to adjust to their changing supply and demand.

Yen-Dollar Rate Trends



According to the floating exchange rate system, if a country does not import, its currency will not flow out of the country. That country's currency is desired more by the market because of its scarcity. For example, suppose only one thousand Lilliputian dollars are available in the United States. Suppose that one thousand Lilliputian dollars is enough for one tourist to exchange his/her own money in order to spend a week-long vacation in Lilliput, but that three American tourists want to spend their vacation in Lilliput. Then the U.S. tourist who is able and willing to pay the most U.S. dollars in

exchange for enough Lilliputian money to spend a week in that country will get to go. High demand for the Lilliputian currency will, in general, make the price of its currency rise in comparison to other countries' money. The cost of buying one unit of that currency might be so high that the price of its products would become too expensive for most of the world to afford.

Questions:

1. Looking at the historical graph of the yen-dollar exchange rate, what can you say about its trend? What does this say about the price of Japanese products you might buy? About U.S. products Japanese students might buy?

2. Based on the Lilliputian example of floating exchange rates, what can you say about the exports of a country that tries to import as little as possible?

EXCHANGE RATES: PART 3

The world trades trillions of dollars a year. Japan and the United States alone trade billions of dollars. If the United States buys more from Japan than Japan buys from the United States, a trade imbalance results. Trading can take all forms, including payment for services, such as legal, banking, and distribution services, and some forms of investments. However, the figures used to describe the U.S.–Japan trade imbalance usually refer to the merchandise trade deficit, meaning the trade deficit Japan has with the United States with merchandise (goods) such as automobiles, beef, and electronic equipment. Until the mid-1970s, the United States consistently maintained a merchandise trade surplus with Japan. However, Japan's rapid economic growth after World War II and the United States' easily accessible market helped rocket Japan's export growth. Since the late 1970s, Japan has consistently maintained a trade surplus with the United States, generating extremely high friction between the nations. Here are some statistics describing the history of U.S.–Japan trade:

Japan's Merchandise Trade With U.S.A. (in dollars)*

Year	Exports	Imports	Balance
1978	$24,915,000,000	$14,790,000,000	$10,125,000,000
1980	$31,367,000,000	$24,408,000,000	$6,959,000,000
1982	$36,330,000,000	$24,179,000,000	$12,151,000,000
1984	$59,937,000,000	$26,862,000,000	$33,075,000,000
1986	$80,456,000,000	$29,054,000,000	$51,402,000,000
1988	$89,634,000,000	$42,037,000,000	$47,597,000,000
1990	$90,322,000,000	$52,369,000,000	$37,954,000,000
1992	$95,793,000,000	$52,230,000,000	$43,563,000,000

* from Keizai Koho Center, *Japan 1994: An International Comparison*

The growing trade imbalance quickly resulted in trade talks between the United States and Japan. These talks, often a repeating cycle of U.S. demands, Japanese concessions, and few significant results, have continued into the present. In the early 1980s, the United States began to look at the exchange rate as a possible solution for the trade deficit.

The strong dollar in the 1980s meant that a dollar could buy a lot of foreign currency, and that a lot of foreign currency would be required to buy a dollar. While providing Americans with cheap imports and allowing Americans to travel abroad inexpensively,

the strong dollar also made U.S. products expensive on the domestic market, significantly increasing the trade deficit. By 1985, the U.S. trade deficit had reached $122 billion, a large percentage (36%) of this deficit with Japan. Japan's expertise at producing quality cars and electronics combined with the strength of the dollar against the yen helped the U.S.–Japan trade deficit reach $44 billion. The Reagan Administration and the Japanese government found it in their best interests to find a way to reduce the trade imbalance and stave off protectionism. The mechanism they chose was intervention in the currency markets to influence exchange rates.

In September 1985, the governments of the Group of Five (G-5) Nations (the United States, Britain, France, Germany, and Japan) held an economic summit at the Plaza Hotel in New York. The G-5 nations agreed to cooperate to lower the value of the dollar. As a result of this agreement, which became known as the Plaza Accord, the dollar depreciated significantly through 1986 and early 1987; in one year it dropped over a third in its value to the yen, from ¥243 in September 1985 to ¥153 in September 1986. In eight years, the dollar fell more than half of its value against the yen, dropping to ¥109 in September 1993.

Following the Plaza Accord's coordinated intervention and various U.S. government efforts to stimulate trade, the U.S. trade deficit with Japan gradually stabilized. The U.S. merchandise trade deficit with Japan saw an increase from $51 billion to $52 billion from 1986 to 1987 but a decrease to $44 billion in 1989 and $37 billion in 1990. However, the trade deficit with Japan is swelling again in the 1990s, and the United States is fidgeting. In fact, the 1993 U.S. merchandise trade deficit with Japan was nearly $60 billion.

The Clinton Administration may be looking in the same direction as the Reagan Administration did in 1985 to solve the trade deficit. In April 1993, the U.S. Commerce Department announced that the United States' overall trade deficit had soared to the highest point in almost four years at $102 billion, with Japan's $44 billion surplus with the United States in 1992 accounting for almost half of the total. On April 16, 1993, in a press conference with then Japanese Prime Minister, Kiichi Miyazawa, President Clinton cited that the most pressing action to take to try to lower the trade imbalance was to stimulate the appreciation of the yen.

From January to April 1993, the dollar's value against the yen had plummeted from ¥124 to ¥112 and President Clinton advocated further appreciation of the yen in the hopes of alleviating the trade imbalance. In February 1994, the dollar's value against the yen was ¥108. Japanese companies are suffering the results of an expensive yen (Toyota estimates it will lose $350 million in its fiscal year and Nissan predicts a $250 million loss. Many Japanese companies are offering early retirement to their employees, trying to cut back. However, the very strong yen benefits the Japanese consumers and industries by providing cheaper products. Some analysts suspect that with the appreciation of the yen, Japan's industries may actually benefit from lower costs of raw materials and lower costs in investing overseas, with Japan's industries possibly emerging even more efficient than before.

handout #7

Questions:

1. Explain how the appreciation of the yen can be used to lower the trade deficit.

2. How can the appreciation of the yen benefit Japanese consumers and industries? How will it hurt them?

3. According to the information in the article, which persons described below would favor an increase in the value of the dollar? Explain your choice.

   - ❑ A Japanese student who loves McDonald's hamburgers.
   - ❑ A U.S. student who loves to buy video games imported from Japan.
   - ❑ A Japanese businessman who wants to buy a U.S. computer.
   - ❑ A U.S auto worker, who makes cars that sell in the United States.

4. In your opinion, should the U.S. government pursue a policy designed to raise the value of the dollar, lower the value of the dollar, or keep it at relatively the same rate? Why?

5. How would a country go about lowering or raising the value of its currency?

ARTICLES FROM *THE JAPAN TIMES*

"High Currency Brings Low-Price Bonanza"

Kyodo News Service. By Tetsuo Ashitani.
The Japan Times
May 10-16, 1993
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Businessmen sitting down to lunch at a posh Tokyo hotel on April 21 smiled when they saw that the cost of a "$10 steak" special hit an all-time low price of ¥1,100.

But foreign exchange traders in Tokyo were not amused—for the dollar that day slumped to a historic low of ¥109.90.

The restaurant Poruto at the Tokyo Prince Hotel charges whatever the foreign exchange market dictates, and sets the price of a 180-gram American beef steak at the yen equivalent of $10. The restaurant initiated the menu when it opened in August 1978. The price of the $10 steak once climbed to ¥2,780 in line with the prevailing yen-dollar rate. Masashi Ogura, the restaurant manager, said the special menu attracts more people because of its "reasonable price."

"We are determined to keep the menu. But if the dollar falls further, we might have to reconsider it," he said.

The yen has been rising steadily in value since early February, and Japanese businesses, including blue-chip electronics and car makers, have expressed grave concern about the impact in exports.

For Japanese consumers, however, a strong yen means lower prices of dollar-denominated import goods, and leading supermarket chains and department stores are quickly taking advantage of the shift in foreign exchange markets.

Seiyu Ltd., a Tokyo-based supermarket chain, is launching a two-week special discount sale at its 120 stores in eastern Japan.

Housewives, already nervous about rising costs of food and other daily necessities, now can buy a variety of imported foods at Seiyu stores— Australian beef, California oranges, Alaskan salmon—all at a 30 percent discount off usual prices.

Starting in June, Seiyu will chop 15 percent off the price of 150 items of food, clothing, and household articles. To skirt the complicated domestic distribution system, which adds to retail prices, Seiyu had rapidly expanded imports direct from Asian manufacturers such as Taiwan and Hong Kong. The amount of direct imports jumped to $273 million in fiscal 1992 from $90 million in fiscal 1985, a Seiyu official said.

Takashimaya Co., a major department store, started 8 to 20 percent discount sales from April 15 for imported items, including German tableware and British furniture. It purchased the goods six months ago when the yen was floating lower, so "if the yen's current strong trend continues, the imported goods to be sold after October will be reduced even more," a Takashimaya spokeswoman said.

Economists expect the yen's rise will benefit households and help revive consumer spending. Battered by the recent economic slump, the worst in two decades, Japanese consumers have become wary of buying foreign brand goods. The stronger yen should change that.

handout #8

"U.S. Consumers Unhappy About Strong Yen"

Kyodo News Service
The Japan Times
May 10-16, 1993
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American consumers, unlike their government, are becoming gloomy over the recent rise of the yen, as they watch the prices of many goods imported from Japan rising.

The industrial sector, which ordinarily might welcome a stronger yen as an opportunity to win out over Japanese competitors, has also become cautious, since a further rise in the yen's value against the dollar will eventually boost the prices of the machine parts and equipment they import from Japan, according to Japanese company officials.

As the economies of the two countries become increasingly interdependent, the appreciation of the yen will have adverse effects on the U.S. economy, in addition to the favorable effects expected by the U.S. government—namely, helping to slash Japan's trade surplus with the country, they said.

Since the yen started soaring against the dollar in mid-March 1993, American consumers have seen waves of price hikes in such Japanese products as cameras, videocassettes recorders, and automobiles, which have rapidly become necessities of life. For example, the Honda Accord, one of the most popular Japanese cars on the U.S. market, has become 5.3 percent, or $825, more expensive since the end of last year. Prices of Japanese-made VCRs and camcorders that are not manufactured in the U.S. are also expected to be raised soon.

An official at a U.S. subsidiary of Japan's Matsushita Electric Industry Co. said such developments are inevitable with the yen rising to around ¥110 to the dollar. Most Japanese manufacturers set their product prices using an exchange rate of ¥120 to the dollar.

A shop manager in Manhattan commented he is concerned that further price hikes for Japanese products may cool consumer spending.

U.S. export products manufacturers generally welcome the high yen, because it gives them a competitive edge against Japanese goods. But in the long run, unfavorable effects will show up in such industries as the computer sector, an analysts here said. A higher yen will squeeze the profits of U.S. computer makers because many of them use chips imported from Japan, he said.

An official at the U.S. Commerce Department's information center for exports to Japan also offered a rather severe view, saying that a higher yen will not necessarily boost American exports to Japan since the Japanese market continues to be difficult to penetrate.

EXCERPTS FROM *JAPAN INC.*

In the United States when we think of comic books, images of superheroes in colorful tights and misfigured villains in dark cloaks often come to mind. Often considered a childish form of entertainment, the comic book is sometimes dismissed as trash literature, not deserving any serious attention and having no real value. However, in Japan, comics (called *manga* in Japanese) go far beyond depicting wonder beings saving the world from destruction. Read by people of all ages, Japanese comics are not limited to being childish entertainment. Dramas, soap operas, movies, classic novels, even do-it-yourself instructions are depicted through comics. In Japan, the comic book is considered a literary media that has a unique style and value.

One of the uses of comics is to educate. From young Japanese students learning manners through etiquette comics to adults reading about world news events, comics can be used to transmit knowledge. *Japan Inc.* was a comic strip published in late 1986 in *Nihon Keizai Shimbun*, the Japanese equivalent of the *Wall Street Journal*. The comic strip tells of the struggle of a company dealing with real-life economic changes such as the rise of the yen and the U.S.–Japan trade imbalance. As a group, read the following two excerpts from *Japan Inc.*, which appear on the next pages, and complete the activity below.

Activity:

Now it's time for you to be a comic book artist! From reading the two newspaper articles in Handout #8 and the comic excerpts from *Japan Inc.* about how exchange rates may influence lives, try to think of more situations in life that might be affected by the changes in exchange rates. For example:

- A worker is afraid of losing his/her job, but also finds that he/she is enjoying cheaper products.
- A professor is trying to illustrate the way exchange rates work.
- A car buyer is surprised at the increase in price of a particular car.
- Students go shopping and find out how expensive products have become.
- A tourist visiting another country is shocked at the difference in prices.
- An export company president finds the change in the exchange rates extremely helpful in his/her business but then discovers the costs of his/her machine parts.

Draw a page or two of comics that tells a story about situations surrounding exchange rates. The comics can be humorous, dramatic, or informative.

handout #9

The following excerpt from Chapter 2, "Countering the Rise of the Yen," from *Japan Inc.* depicts a scene from Imahama City on the island of Shikoku, Japan. The mayor of Imahama City and the president of Seiyo Spinning Company are reacting to news on the television about the rise in the value of the yen. While reading the excerpt, discuss some of the ways in which the rise in the value of the yen is affecting the mayor and the president.

IMAHAMA CITY, SHIKOKU
Finally the exchange rate has broken the 160-yen mark. One dollar is now worth 150 yen, 90 sen
In less than two years, the yen has risen 50%
Economic analyst Kanda, what do you think?

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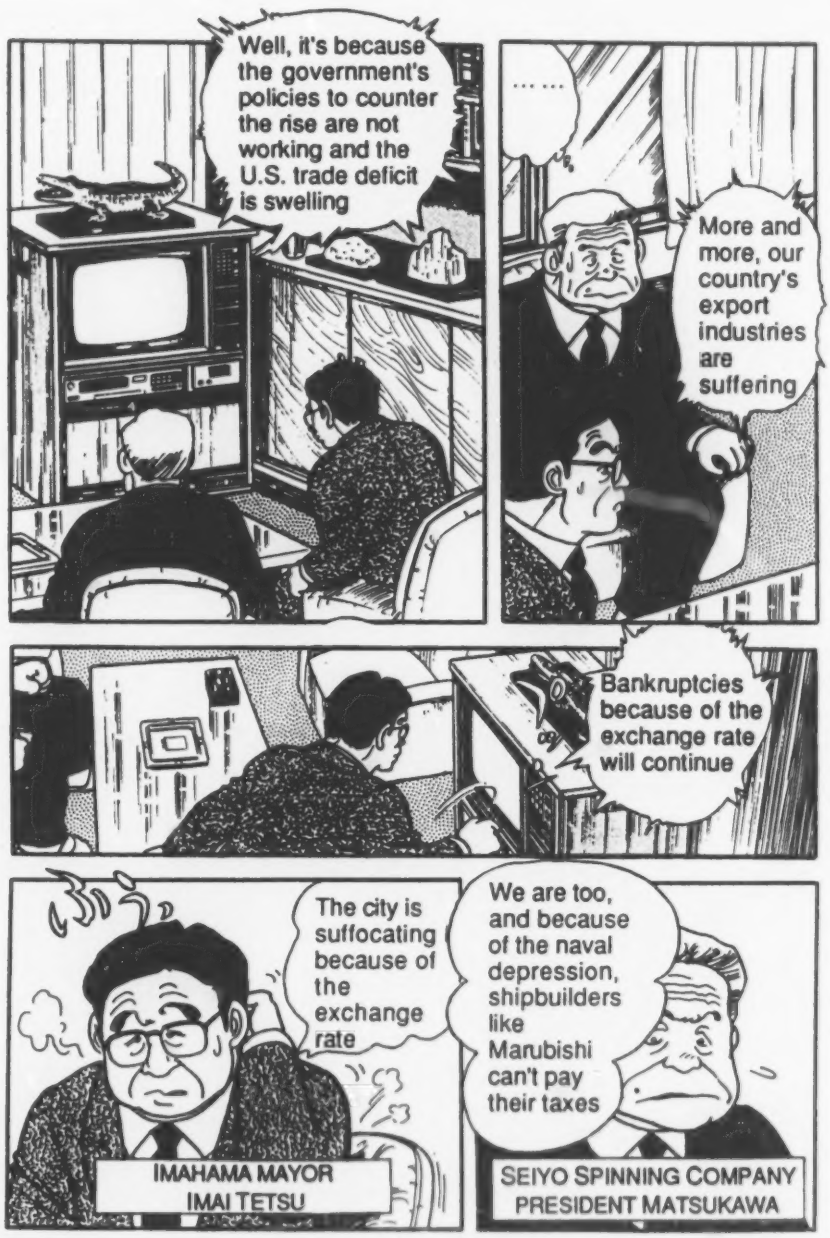
Well, it's because the government's policies to counter the rise are not working and the U.S. trade deficit is swelling
... ...
More and more, our country's export industries are suffering
Bankruptcies because of the exchange rate will continue
The city is suffocating because of the exchange rate
IMAHAMA MAYOR
IMAI TETSU
We are too, and because of the naval depression, shipbuilders like Marubishi can't pay their taxes
SEIYO SPINNING COMPANY
PRESIDENT MATSUKAWA

handout #9

The city's finances are in the red and the whole town is in a depression
but we won't forget the kindness of you and the Marubishi Shipbuilding Company
The two of you are the city of Imahama
.....
But with ¥150 to $1, we won't be able to compete with the rest of Asia
Tomorrow I'm going to consult with Kobayashi of MITI and Boss Shijima
Is that so? I hope you have a MEATY discussion ...

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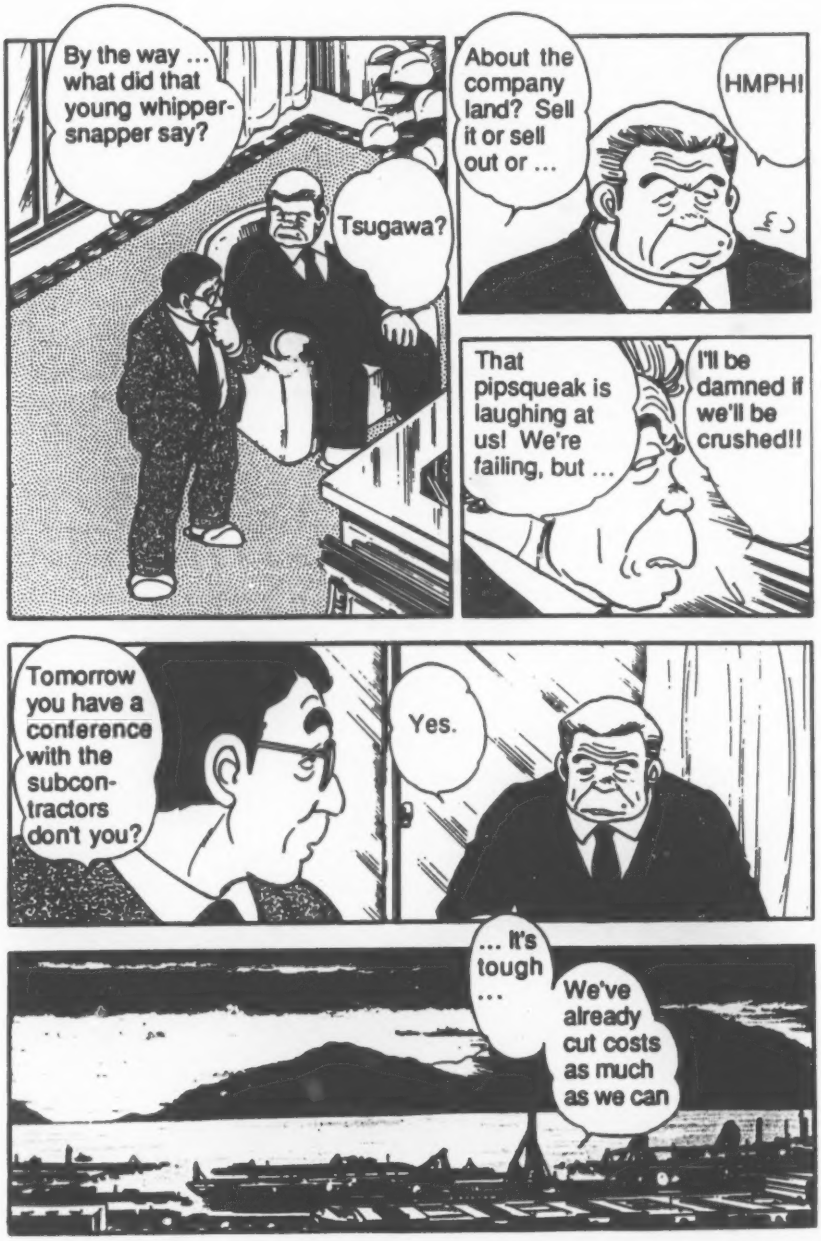
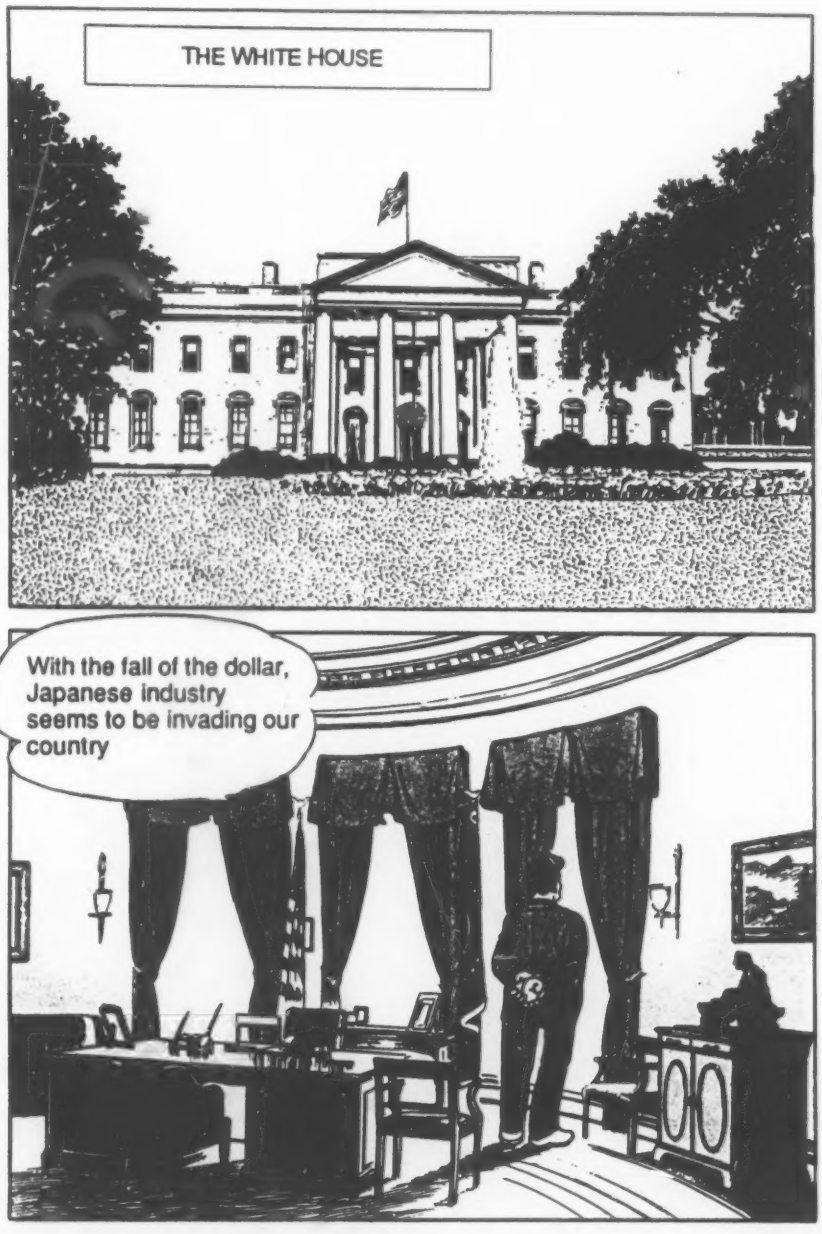
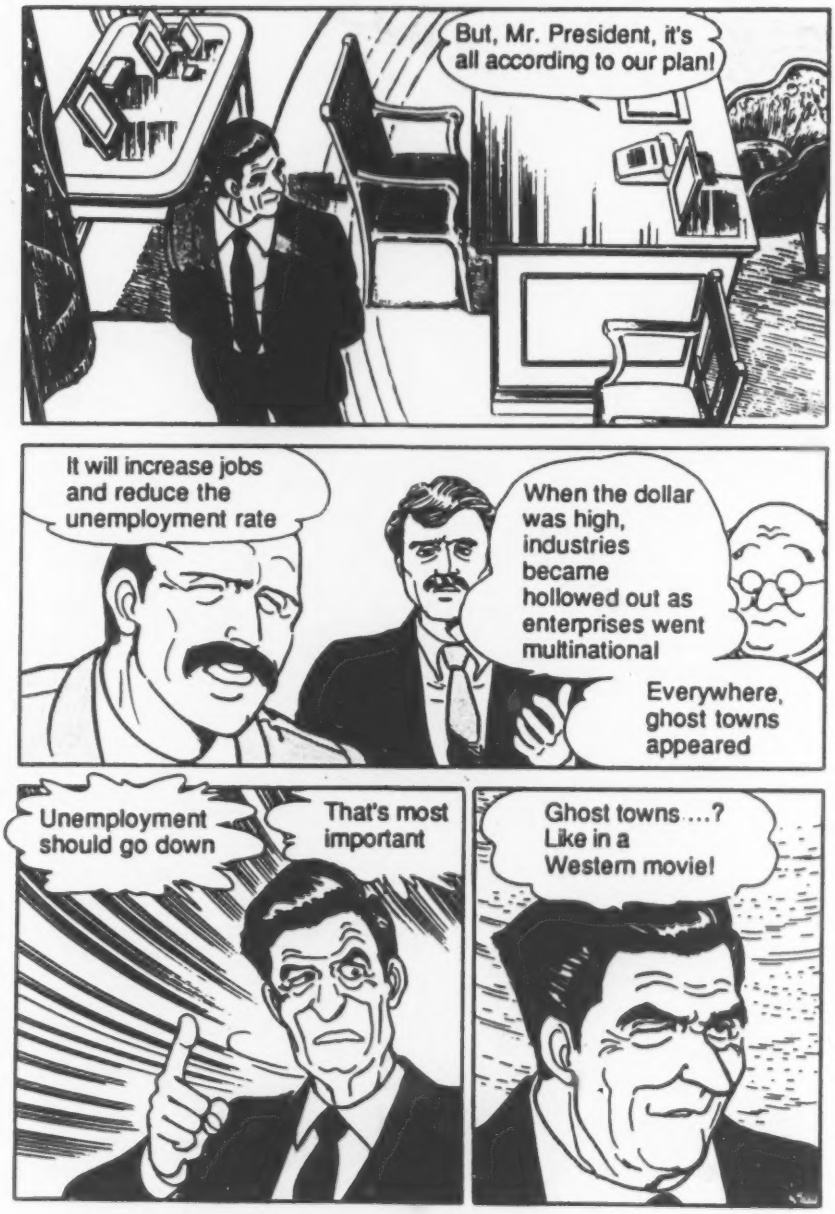

By the way ... what did that young whipper-snapper say?
Tsugawa?
About the company land? Sell it or sell out or ...
HMPH!
That pipsqueak is laughing at us! We're failing, but ...
I'll be damned if we'll be crushed!!
Tomorrow you have a conference with the subcon-tractors don't you?
Yes.
... It's tough ...
We've already cut costs as much as we can

handout #9

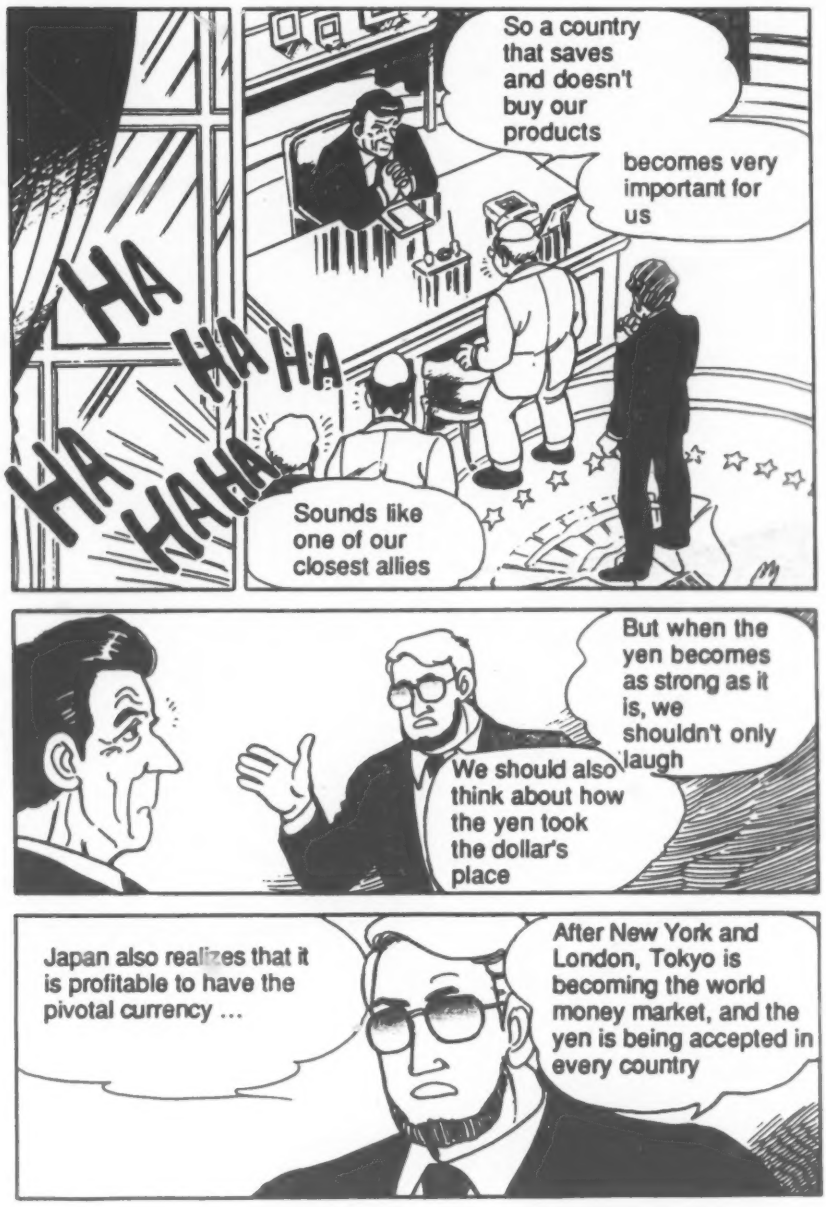
The following excerpt from Chapter 2, "Countering the Rise of the Yen," from *Japan Inc.* depicts a scene from the White House, Washington, D.C. The president of the United States is discussing the impact of the fall of the dollar. While reading the excerpt, discuss some of the concerns expressed in the excerpt. In what ways is the dialog in this excerpt different or similar to the previous one from Imahama City?

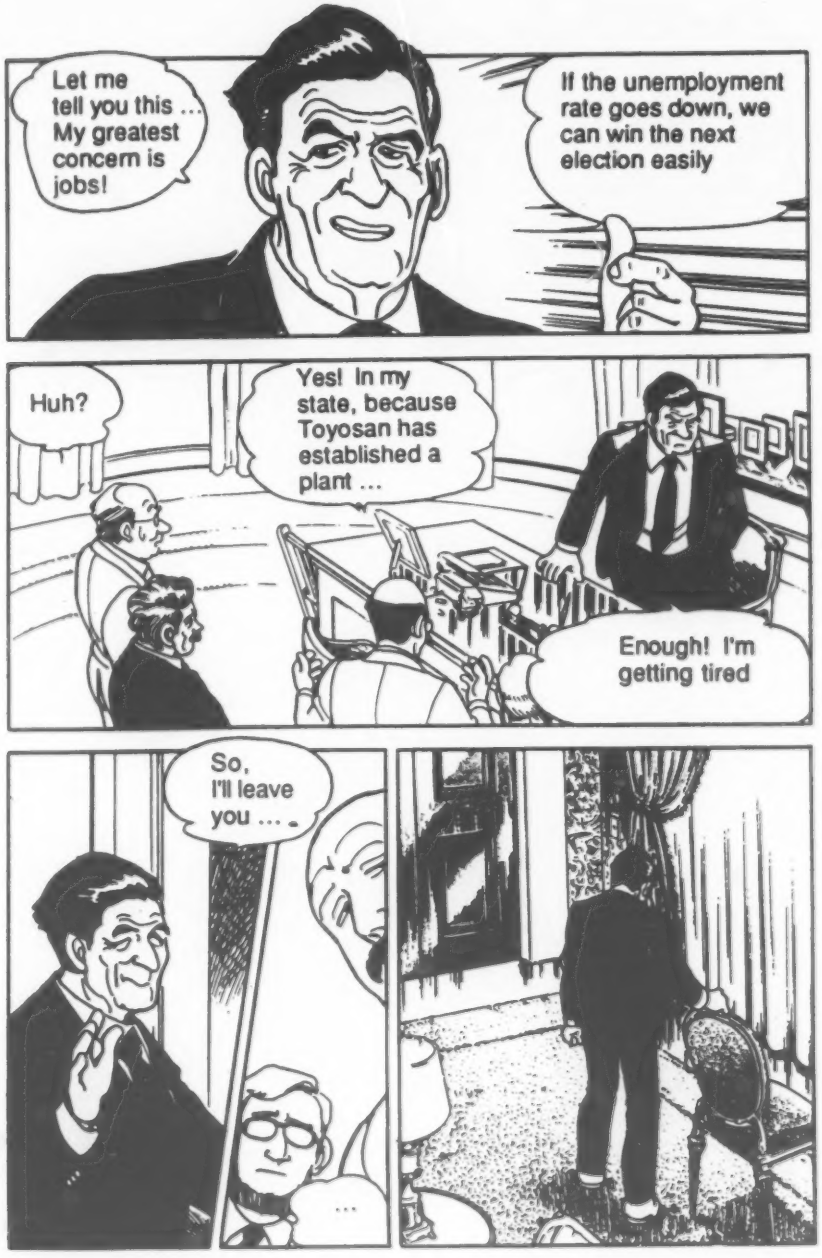



But, Mr. President, it's all according to our plan!
It will increase jobs and reduce the unemployment rate
When the dollar was high, industries became hollowed out as enterprises went multinational
Everywhere, ghost towns appeared
Unemployment should go down
That's most important
Ghost towns....? Like in a Western movie!

But there's another problem ...
What's that?
The yen
The ... yen ...?
Why is the yen a problem?
Merely by printing dollar bills, we could buy anything in the world
But the more dollar bills we print, the more values go down
If we save up those dollar bills, eventually the stash becomes trash

© SPICE


So a country that saves and doesn't buy our products
becomes very important for us
HA HA HA HA HA
Sounds like one of our closest allies
But when the yen becomes as strong as it is, we shouldn't only laugh
We should also think about how the yen took the dollar's place
Japan also realizes that it is profitable to have the pivotal currency ...
After New York and London, Tokyo is becoming the world money market, and the yen is being accepted in every country


Let me tell you this ... My greatest concern is jobs!
If the unemployment rate goes down, we can win the next election easily
Huh?
Yes! In my state, because Toyosan has established a plant ...
Enough! I'm getting tired
So, I'll leave you ....
...

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Lesson 3

THE BENEFITS OF TRADE

WITH A FOCUS ON COMPARATIVE AND ABSOLUTE ADVANTAGE

Organizing Questions

- What are the benefits of international trade?
- What is comparative and absolute advantage?
- How do the United States and Japan benefit from each other through international trade?

Introduction

Lesson 2 outlined some of the basic steps of international trade with a focus on the concept of exchange rates. Lesson 3 focuses on the benefits of international trade, especially on the concepts of comparative and absolute advantage.

Lesson 3 begins with a discussion of the possible benefits of international trade using concepts and knowledge learned from the first two lessons. Using examples from the U.S.–Japan economic relationship, a series of activities helps students consider the benefits of international trade such as the availability of new products, diversity of the same types of products, lower costs of products, higher efficiency through specialization, and the jobs and businesses created by international trade. Activities that focus on absolute and comparative advantage also attempt to have students consider the benefits of international trade. In small groups, students will discuss the validity of absolute and comparative advantage. This lesson should take 2-3 class periods.

Objectives

knowledge

- to understand benefits of trade such as:
  - obtaining otherwise unavailable resources or products
  - providing the consumer with a choice of more diverse products
  - lowering costs of products or resources
  - creating new jobs and businesses
- to understand the concepts of absolute and comparative advantage

attitude

- to understand the pervasiveness of international trade
- to understand some of the ways the United States and Japan benefit through trading with each other

skill

- to be able to prove the validity of comparative and absolute advantage through mathematical reasoning
- to work in pairs or in small groups
- to interpret newspaper articles and statistical information

lesson three

Materials

- Handout #1: Supermarket Origins, one per every three groups
- Handout #2: Here's a PC for Peanuts, one per every three groups
- Handout #3: Foreign Direct Investment, one per every three groups
- Handout #4: Absolutely Sensible, one per pair of students
- Handout #5: Absolute and Comparative Advantage, one per pair of students

Procedure

1. Begin Lesson 3 by informing the class that the activities of the lesson will concentrate on the benefits of international trade. Engage the class in a discussion about the advantages of international trade. Some questions to present to students might be:

   - Thinking back to the Resource Trading Game of Lesson 1, what advantages might come from international trade?
   - Judging from the Japanese student responses in Lesson 1, what might be other advantages of international trade?
   - Could the various steps in the process of trade (as outlined in Lesson 2) provide benefits as well?

   If Lessons 1 and 2 were not taught, ask:

   - Thinking of the goods and services utilized at school, home, or work, what advantages might come from international trade?

   Lesson 1 presented two activities that may have led students to discover some advantages of trade. The Resource Trading Game may have taught them that through trading, a country can acquire previously unavailable products or resources. Noticing the foreign products that Japanese students use as stated in their responses to the questionnaires from Lesson 1 may also lead students to this conclusion. The Japanese student responses may also lead students to discover that trading provides a more diverse selection of products. Lastly, the discussion of the activities from Lesson 2 may also reveal that trading can provide many new jobs and businesses. Students may also cite from personal experience the possible lower costs of products resulting from international trading, which may lead to them conclude that trade maximizes efficiency.

2. Divide the class into groups of 4-5 students. Distribute either Handout #1, #2, or #3 to each group. These handouts contain statistics and magazine articles about U.S.–Japan international trade. Allow about 30 minutes for the class to finish the activities, and also allow 5 minutes per group to share results. Using this information, students should be able to conclude:

   - from Handout #1, that trading provides resources and products that would otherwise be unavailable.
   - from Handout #2, that trading may reduce the price of products and provide consumers with a variety of products and the freedom of selection.
   - from Handout #3, that international trading may give rise to new jobs and businesses and provide consumers with better products.

3. Distribute Handout #4, Absolutely Sensible, to pairs of students. Handout #4 is an activity designed to introduce the concept of absolute advantage to students. Instead of telling students the reasoning behind the concept, this activity attempts to have students discover the validity of the concept themselves. The goal of the activity is to have students realize that specializing in their most efficient product and trading for products they need increases their overall yield. Review the handout with the class to find out if there are questions about the activity. Give students 15-20 minutes to try to solve the problem. If all students seem to be confused, hint to the class that trading is an option.

4. When most of the pairs of students have found solutions, stop the activity. Ask the students for possible solutions to the problem. Some students might have solved the problem through a mathematical approach without trading. Some pairs of students might have discovered that specializing in a product and trading provided the greatest number of pairs of hockey sticks and pucks. Here are two possible solutions:

   - If groups **did not specialize** and tried to create the greatest number of pairs themselves, they would get:

   Hevea:
   must divide its 48-hour allotted labor time:
   30 hours for hockey sticks and 18 hours for hockey pucks

   30 hours/ 10 hours per hockey stick = **3 hockey sticks**
   18 hours/ 3 hours per hockey puck = **6 hockey pucks**

   New Lumberland:
   must divide its 48-hour allotted labor time:
   32 hours for hockey pucks and 16 hours for hockey sticks

   16 hours/ 4 hours per hockey stick = **4 hockey sticks**
   32 hours/ 16 hours per hockey puck = **2 hockey pucks**

   - If groups **specialized and traded** they would get:

   Hevea: 48 hours/ 3 hours per hockey puck = **16 hockey pucks**
   New Lumberland: 48 hours/ 4 hours per hockey stick = **12 hockey sticks**

   Combining resources, the two countries would have 6 pairs each with leftover parts. Using an exchange rate of 3 hockey sticks for 4 hockey pucks, Hevea would trade 8 pucks for 6 sticks with New Lumberland.

ANSWER TABLE

	Working Alone		Specializing and Trading	
Country	Hockey pucks	Hockey sticks	Hockey pucks	Hockey sticks
Hevea	6	3	8	6
New Lumberland	2	4	8	6

5. Inform students that through specialization and trading, they are able to produce more than without it. Remind students about the Resource Trading Game from Lesson 1. In the game, some people had more of one kind of resource than others, representing an advantage. Even if they had all the required resources to form a product, they would not have created the same number of products without trading the resources they had in abundance for the ones that were scarce. Remind students also about Lesson 2's exchange rate concept, which also appears in this activity—not in terms of monetary exchange but in terms of product exchange (i.e., 3 hockey sticks for 4 hockey pucks).

   Emphasize to students after their presentations that with the same amount of work time and energy, more products were formed than without specialization and trade. Through application of absolute advantage, the number of pairs of hockey sticks and pucks has grown in size for both countries. *Absolute advantage* refers to the situation when one country can produce a product more efficiently than another country. Both countries gain when each makes a product in which it has an absolute advantage and trades part of its output for the other product.

   Of course, since international trade involves many different products and countries, it is actually much more complex than this example. However, the general principle in true. If each country specializes in producing those items in which it has a competitive advantage and then trades with other nations, there's generally more of everything for the nations involved.

6. Distribute Handout #5, Absolute and Comparative Advantage, to pairs of students. This activity attempts to show students the concept of comparative advantage. *Comparative advantage* refers to the situation when one country can make two or more products more efficiently than another country, but the ratio of advantage is greater in one of the products than the other. Both countries gain when the more efficient producer makes the product in which it has the greater advantage and the less efficient producer makes the product in which it has the smaller disadvantage. Allow students 15-20 minutes to solve this problem. When most of the class seems to have discovered the idea, stop the activity. Again (as in Procedure step 5), ask the class for possible solutions. Choose pairs of students to present their solutions to the class. If there are other solutions, have students present them.

Without specialization:

- Audstralia: 6 CDs and 6 CD cases
- Musico: 3 CDs and 3 CD cases

Specialization would yield:

- Audstralia: 36 hours/ 3 hours per CD = 12 CDs
- Musico: 36 hours/ 4 hours per CD cases = 9 CD cases

If Musico sells six CD cases to Audstralia for four CDs (using an exchange rate of 3 CD cases for 2 CDs), Audstralia would end up with eight CDs and six CD cases and Musico would end up with 4 CDs and 3 CD cases.

ANSWER TABLE

	Working Alone		Specializing and Trading	
Country	CDs	CD cases	CDs	CD cases
Audstralia	6	6	8	6
Musico	3	3	4	3

7. Point out that, of course, international trade is much more complex than this example. However, nations generally do specialize in producing the things in which they have an absolute or comparative advantage. For example, the United States, due to its climate, its abundance of rich agricultural land, and its highly mechanized farms, is a very efficient producer of soybeans. Soybeans cannot be grown as efficiently in Japan. However, Japan with its highly efficient production methods and advanced technology, is a very efficient producer of CD players. Thus, the United States produces soybeans but depends on Japan for much of its CD players. Japan specializes in making CD players, but relies on the United States and other countries for its supply of soybeans, which are used largely to produce *tofu* or bean curd. Through international trade, both Japan and the United States come out ahead. Japan gets a more abundant supply of soybeans, and the United States gets a more abundant supply of CD players than would otherwise be available.

   Specialization and international trade are important aspects of today's global economy. International trade has encouraged specialization and has helped increase the total amount of goods and services produced in the world. Today, nations depend on other nations for many of the products they use. International trade has brought about global economic interdependence.

8. Inform students that Lesson 4 examines some of the problems of trade with a focus on protectionism and its effects.

SUPERMARKET ORIGINS

Nations trade because they hope to benefit from it. But what are these benefits? This activity contains Japanese agricultural imports and consumption statistics. Using these figures and referring back to previous lessons for information, answer the questions at the end of this activity to reveal some of the benefits of trade.

Japan's Food Demand and Supply (in 1000 metric tons)*

Product	Domestic Production	Foreign Import	Trade Export	Domestic Consumption
Cereal	11,825	27,785	0	39,580
•Rice	10,499	50	0	10,484
•Wheat	952	5,307	0	6,270
•Corn	28	20,217	0	20,211
Beans	414	4,978	0	5,297
Vegetables	15,739	1,551	2	17,288
Fruit	4,882	2,979	29	7,734
Meat	3,484	1,486	8	5,011

* from Keizai Koho Center, *Japan 1994: An International Comparison*

Questions:

1. Domestic consumption of a country can sometimes exceed domestic production. Looking at this chart, what agricultural products are in high demand in Japan? What agricultural products does Japan import the most?

2. Can you think of a reason why Japan cannot produce enough of these products and has to import them? (Hint: think about Japanese geography.)

3. From these answers and the statistics from the table, describe one of the benefits of trading. If you can come up with more than one benefit, be sure that you support your answer using information from the table.

HERE'S A PC FOR PEANUTS

By Bill Powell in Tokyo
Newsweek
January 25, 1993
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In recession-plagued Japan these days, 128,000 yen—or roughly $1024— goes a lot farther than it used to. It buys about four nights at a first-class hotel, maybe three rounds of golf at a nice course, two nights of carousing at exclusive Ginza nightclubs and lately, one total revolution in the nation's giant computer industry.

Since Oct. 1 of last year (1992), 128,000 yen is what Houston-based Compaq Computer Corp., the third largest maker of personal computers in the world, has been asking for its desktop PC. By U.S. standards, it's not a bad price. By Japanese standards, however, it is an unfathomable price—a full 50 percent beneath the price tag for a similar model sold by NEC Corp., Japan's flagship computer company, which controls about half the PC market. Japanese analysts immediately scoffed—a "gimmick," one brokerage house decided—and NEC reacted like an elephant that's just had a fly land on its back—it ignored it.

Now, the elephant is twitching because Compaq is no longer its only irritant. The world's top two PC makers, IBM and Apple, have followed Compaq's lead, and this week they will be joined by red-hot Dell Computer Corp., which will try to duplicate its successful U.S. strategy—selling customized computers by mail order—in Japan. Though the U.S. firms still claim only about 17 percent of a $7.2 billion market, the signs of a turnaround are unmistakable.

If imitation is the sincerest form of flattery, Compaq should be pleased. On Monday, just days before Dell CEO Michael Dell is expected to unveil his strategy for the Japanese market, mighty NEC will announce new models and much lower prices. Though NEC executives insist the move has been long planned and isn't a response to the Americans, no one believes it. Says a NEC executive: "They've posed a major challenge to us." Asked if he thinks the elephant blinked, Masaru Murai, president of Compaq KK, the company's Japanese unit, nods cheerfully and says, "Yes, it has."

What has caused the remarkable turnaround, and how real is it? Two major changes—both of which are irreversible—have cracked open the Japanese PC market and given the U.S. firms some momentum. For years it was difficult to make IBM-compatible PCs powerful enough to run software programs that could handle the complex Japanese language. Expensive additional gizmos—like memory add-ons that could read Japanese characters—were needed, and few Japanese bothered to buy them. In addition, NEC had grabbed its dominant position by developing its own operating system—the internal codes that tell a computer what to do—and reams of Japanese software that can run only on that system. It became, in effect, the only PC game in town.

Two years ago that changed for good. American chip powerhouse Intel Corp. came out with a microprocessor that made PCs much more powerful. Furthermore, IBM launched in 1991 a new version of the operating system it licenses from another

American powerhouse—Microsoft. Combined with Intel's powerful chip, the new system—called DOS V—has no problem with foreign languages. It can "speak" Japanese like a native and creates a bridge that enables Japanese consumers to buy software popular in the United States and Europe, like Lotus 1-2-3. Shrewdly, IBM then invited other computer makers to join a group with which it would share its multilingual system. If enough signed up, a second standard—in competition with NEC—would emerge in Japan, making it easier to recruit large distributors and retailers. IBM says 25 companies signed on. That included powerful Fujitsu Ltd., the huge Japanese mainframe maker that lags well behind NEC in its home market in PCs.

Despite the U.S. momentum, NEC still retains huge advantages in Japan— most prominently a distribution and retail network that's vaster than all the American's combined. Even so, with Dell at the ready to make things even more competitive, industry analyst Darrel E. Whitten believes the U.S. companies may grab 30 percent of the Japanese market within five years, more than twice their level at the beginning of the decade. Who will the ultimate winner be? That's already clear. It's Yukio Sakamoto, who, peering at a Compaq display in central Tokyo recently, said, "I didn't think I'd ever see computers this cheap in Japan." Sakamoto wins—and so does anyone else in the market for a PC in Japan.

Questions:

1. Who ultimately benefits from the U.S. companies' entry into the Japanese PC market? Considering Yukio Sakamoto's statement, what is a benefit of international trade? What does this say about the benefits of trade on a personal level?

2. Why did NEC follow Compaq by introducing a new line of lower-priced computers? Do you think NEC would have introduced such a line of computer so soon if Compaq had not entered the Japanese PC market?

3. If IBM and its entourage of companies succeed, a new computer operating system along with a new huge American library of computer software will be available to the Japanese. How does this benefit the people? In general, what is one of the benefits of international trade?

FOREIGN DIRECT INVESTMENT

Foreign direct investment refers to the situation when a company or individual other than a bank invests, or puts money into, capital overseas. Foreign direct investment includes the buying of property or factories, the hiring of workers, or the financing of projects. In the late 1980s, foreign direct investment in the United States reached all time highs, and recently, Japanese foreign investment has been under attack, even though Japan lags far behind Great Britain in terms of investment in the United States. Most notable media-hyped examples of Japanese foreign direct investment are the acquisitions of Pebble Beach, Columbia Pictures, and the Rockefeller Center. When a number of investors headed by Nintendo President Hiroshi Yamauchi attempted to purchase the Seattle Mariners, Japanese foreign investment was deemed threatening to the United States' welfare. Capital used for takeovers of corporations also comes under foreign investment's ominous label. As more prominent U.S. icons and properties are purchased by the Japanese, some Americans see foreign direct investment as a sign of the United States being "taken over."

Yet Japanese foreign direct investment can also contribute to U.S. economic growth. When a Japanese company buys U.S. property, an infusion of capital is supplied to the U.S. economy. For example, former Pebble Beach owner, Marvin Davis, used money from the sale of Pebble Beach to expand his entertainment company. Japanese foreign direct investment also includes the opening of plants and factories by Japanese companies in the United States. As of September 1990, Japanese corporations were operating 1,433 plants in the United States, with the number of plants steadily increasing. With these plants, Japanese firms have created over 400,000 U.S. jobs.

The criticism of foreign direct investment by Japanese firms is curious because the United States has a long history of foreign direct investment in other countries. In fact, U.S. investment abroad is far greater than Japanese investment overseas. U.S. firms such as Coca-Cola, Ford, IBM, and Citibank have long established subsidiaries all over the world. For example, a company like IBM is better able to serve the French market with French employees based in France.

One example of foreign direct investment that has worked to the United States' benefit is Honda's contribution to the U.S. economy. The following article describes this benefit.

handout #3

"Honda Blurs Line Between American and Foreign"

The New York Times
Wednesday, March 14, 1990
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When the Honda plant in Marysville, Ohio, opened eight years ago, American workers, like many at Japanese-owned factories in this country, were used mainly to assemble parts mostly imported from Japan, to build cars designed by Japanese engineers. The engines, for example, were built in Japan and shipped so that they could simply be dropped into place.

But now, Honda is sharing skills and ideas with its American work force at levels from the assembly line to the design office, and it has increasingly relied on those workers for more than just relatively simple labor. Honda has begun to use its American engineers in Ohio and California to design cars for the United States market, the company's largest, and to improve the tools and processors used to build them.

The percentage of imported parts used at the Marysville plant has fallen significantly; the number of parts suppliers based in the United States has risen to 194, from 27, since the plant opened. (That group includes American companies, Japanese companies based in this country, and joint ventures.) And the engines are now being built from scratch at a new plant near Marysville.

The Accord itself is now a hybrid, built by workers in both Japan and the United States and exported from both countries. Honda's main strategy is to develop and build cars in the main areas where they are sold—Japan, North America, and Europe—and even export them, said Scott Whitlock, Honda's executive vice president for United States manufacturing.

Rather than undermining American competitiveness, the cross-pollination at Honda actually increases it, a number of experts say. They argue that Honda, one of the standard setters in manufacturing and engineering cars, is helping Americans improve an essential product. The improvement will soon spread to other manufacturers trying to stay even, the theory goes. For example, Honda has shown its American supplier, the Inland Steel Company, how to remove tiny imperfections in its steel that hindered the effectiveness of a corrosion-resistant coating, said Matthew Lofton, Inland's general sales manager. Inland later signed up the Chrysler Corporation as a customer for the corrosion-resistant steel.

"Plants like this force everyone else to put on their track shoes," said David Cole, head of transportation studies at the University of Michigan and an auto industry consultant. He said Honda's Marysville plant enhances American industrial competitiveness "by introducing new management philosophies and becoming a model for other U.S. firms." As Robert B. Reich, a professor at the John F. Kennedy School of Public Policy at Harvard University, sees it: although profits from Honda go to Japan, that sum amounts for little when compared with the company's outlays for salaries, materials, research, and training in the United States. Hence, Professor Reich contends that the nation should develop policies governing foreign investment, trade, anti-trust, and research and development that encourages "any global corporation that invests in the American work force."

Questions:

1. What are some of the benefits U.S. companies have derived from Honda's U.S. plants? How did Chrysler benefit from plants opened in the United States by Japanese companies? Based on this information, what are some of the benefits of trade?

2. "The number of parts suppliers based in the United States has risen to 194, from 27, since the plant opened." How does this benefit the United States?

3. "Plants like this force everyone else to put on their track shoes." How does this benefit consumers in the United States?

4. How is Honda's entry into the U.S. market similar to Kentucky Fried Chicken's entry into the Japanese fast food market?

5. How is interdependence expressed through the information in this article?

ABSOLUTELY SENSIBLE

My congratulations to you and your firm, Absolute Sense. The multi-million dollar contract to head this country's production of hockey equipment belongs to your company. As you well know, our national pastime is growing far faster than our capacity to produce the necessary equipment. Hockey fans throughout our country, Hevea, may revolt if demand exceeds supply too long. Surely you understand our dire situation. If you succeed in meeting our expectations, fame, credibility, and further contracts may follow.

Two essential products are especially in demand: hockey pucks and hockey sticks. We can produce one product rather easily, but the other requires more time and energy. All of the country's retailers sell only pairs of products—one hockey puck and one hockey stick. Your task is to find out how to maximize our production of pairs of products by deciding how much time to devote to one product and how much time to devote to the other product.

Below is a table that contains our country's production statistics. Included also is our neighboring country's (New Lumberland) production statistics. Although I do not know how, I hope this information helps you. For experimentation purposes, determine the maximum number of pairs you can produce in a 48-hour working period. Our future is in your hands. Congratulations again, and good luck.

Hours It Takes to Manufacture a Product

Country	Hockey pucks	Hockey sticks
Hevea	3 hours	10 hours
New Lumberland	16 hours	4 hours

Solution proposal and result:

ABSOLUTE AND COMPARATIVE ADVANTAGE

In the previous activity, Absolutely Sensible, both you and your partner made more pairs of products through specialization. *Specialization* is when your nation or company can concentrate its resources and time on the product it produces most efficiently. Then your nation or company can trade with another nation or company (which also may be specializing in what it produces most efficiently) for what you need. *Absolute advantage* is the situation in which one country can produce a product more efficiently than another country, and both countries gain when each makes a product in which it has an absolute advantage and trades part of its output for the other product. In the last activity, although Hevea produced hockey pucks much more efficiently than New Lumberland, it had a disadvantage in producing hockey sticks. By trading, both countries gained more pairs of products.

But what if one country has an absolute advantage in both goods? Would it still be in the best interest of both countries to trade?

Suppose now, that you are offered a consulting assignment. The presidents of the countries Audstralia and Musico have decided to trade together and need your expertise. Both countries can make CDs and the CD cases, but their resources and skills are unevenly distributed. Trading with each other is an option they have considered, but they don't know how this will benefit them. Here are the statistics:

Hours It Takes to Manufacture a Product

Country	Compact discs	Compact disc case
Audstralia	3 hours	3 hours
Musico	7 hours	4 hours

Answer the following questions:

1. How much time is required in Audstralia to produce one CD and one CD case? How much time is required in Musico to produce one CD and one CD case?

2. How many CDs and CD cases can Audstralia produce in one 36-hour workweek? How many CDs and CD cases can Musico produce in one 36-hour workweek? (Assume that each country produces the same number of CDs as CD cases.)

3. Let's assume Audstralia and Musico decide to specialize and trade. Audstralia should specialize in manufacturing the product in which its advantage is comparatively greatest. Musico should specialize in the product where its disadvantage is comparatively less. This is the principle of *comparative advantage.* What should Audstralia specialize in producing? What should Musico produce?

4. How many CDs can one worker in Audstralia manufacture in a 36-hour workweek? How many CD cases can one worker in Musico produce in a 36-hour workweek?

5. Now Audstralia and Musico must trade. Let's say they agree to trade three CD cases for two CDs. Musico sells six CD cases to Audstralia for four CDs. How many CDs and CD cases will Audstralia end up with? How many CDs and CD cases will Musico end up with?

6. Complete the chart below showing what can be produced in one 36-hour workweek in Audstralia and Musico. This chart will help you compare the final result in both countries with and without trade.

	Working Alone		Specializing and Trading	
Country	CDs	CD cases	CDs	CD cases
Audstralia				
Musico				

7. How much better off is Audstralia as result of specialization and trade? How much better off is Musico?

8. In general, what does this example show about the benefits of trading with another country?

Lesson 4

THE PROBLEMS OF TRADE
WITH A FOCUS ON PROTECTIONISM

Organizing Questions

- What are some of the major problems that occur because of international trade?
- What is protectionism and its major effects?
- How does protectionism affect trade between the United States and Japan?

Introduction

The past lessons have stressed how important and beneficial international trade is to the world. Although international trade has many benefits, some companies and people are adversely affected by foreign competition. Lesson 4 introduces students to some of the problems that occur because of international trade by focusing on protectionism and its effects. This background information will then be used to study some of the problems surrounding the U.S.–Japan economic relationship.

Lesson 4 begins with a poll of the students in order to evaluate prevailing views of U.S.–Japan relations, and then introduces traditional types of protectionism (tariffs and quotas) through a case study of the history of the automobile voluntary export restraints. Activities involving the automobile industry introduce students to different views of protectionism. In addition, a cartoon excerpt from the Japanese publication, *Japan Inc.*, and U.S. political cartoons are presented in order to give students different perspectives on the problems of trade. This lesson should take 3-4 periods.

For detailed background information about the problems of trade between the United States and Japan, teachers should refer to "History of U.S.–Japan Economic Relations," provided at the end of this lesson.

Objectives

knowledge

- to understand some of the problems associated with international trade:
  - infant or ailing industry becoming vulnerable to foreign competition
  - loss of jobs of those who work for companies that must shut down because they cannot compete
  - the formation of protectionist policies
- to define and identify different types of protectionism
- to learn about the effects of protectionism
- to learn about some types of non-tariff barriers

attitude

- to understand that international trade may benefit some people and adversely affect others
- to understand some reasons why people defend protectionism, free trade, and/or managed trade

skill

- to effectively argue a point of view
- to interpret and analyze political cartoons and comics

Materials

- Transparency: Polls
- Poll Results, for the teacher
- Handout #1: Automobile Industry: Part 1, one per group
- Handout #2: Automobile Industry: Part 2, one per group
- Handout #3: Commercials, one per group
- Handout #4: Automobile Industry, Part 3, one per group
- Handout #5: *Japan, Inc.*, an Excerpt, one per group
- Handout #6: U.S. Political Cartoons 1–16, one per group, two political cartoons per group
- U.S. Political Cartoon Explanations/Information, for the teacher
- History of U.S.–Japan Economic Relations, for the teacher

Procedure

1. Begin Lesson 4 by informing students that they will be analyzing some problems associated with international trade. To introduce this lesson and assess how much students know about the problems of international trade and the U.S.–Japan relationship, the first activity involves a poll of the class. Questions #1–7 are from polls conducted of the general public during 1989-1992. Questions #8–9 were asked of U.S. Congressmembers in 1992. Using the Transparency, Polls, conduct a poll of the class with the first nine questions. Have a group of students record the results on the board and compute percentages. After the class poll, present the class with the results of the nationwide polls listed on Poll Results.

   Page two of the transparency lists questions asked of the general public in Japan. Using these questions, ask students how they think the Japanese might have responded. Share the results of the polls (also listed on Poll Results). Engage the class in a discussion about the results. Some questions to discuss might be:

   - What is the general attitude of the class toward Japan? In comparing class results with U.S. national results, what were some of the most surprising differences? Do students think the questions are fair?

   - What was most surprising about the answers to the Japanese polls? Why? What does this reveal about how the Japanese public feels about the role of Japan? about U.S. products? about the United States in general? How does this differ from the Japanese student responses to the questionnaires in Lesson 1?

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- How trustworthy are polls? What purpose do they serve? What do these result tell us about the general public's attitude about the U.S.–Japan economic relationship?

- What kind of problems with trade could evoke negative responses or create negative attitudes? Based on what students have learned so far, what problems could arise from international trade? What factors can disrupt interdependence? What problems can result from the process of trade? How can applying comparative and absolute advantage in real life cause problems?

2. During the discussion of the polls, some students might have cited some examples pertaining to the automobile industry. Inform students that they will be analyzing the history of the U.S. and Japanese automobile industry as a case study of protectionism. Have students form five groups. Distribute Handout #1, Automobile Industry: Part 1, to each group. Allow 15-20 minutes for students to read the article and to discuss answers to the questions. Have each group select a reporter to present a brief summary of its discussion to the rest of the class.

3. After most questions have been answered and class contributions given, distribute Handout #2, Automobile Industry: Part 2, to each group. Have students read the material and inform them that this handout serves as a reference guide for the next activity. Tell students that this next activity based on the automobile industry as an example will try to reveal the reasons why protectionism is sometimes used.

4. Distribute Handout #3, Commercials, to each group. This handout contains the instructions for five groups. Four of the groups represent interest groups. The last group listed on the handout, the general public group, will listen to each group's presentation and decide whether to approve or disapprove its proposed policy. Inform the four interest groups that they now represent a larger group of people whose position on the automobile issue is contained in their instructions. Each of the interest group's task is to make a 5-minute commercial that will try to convince the general public group to accept its position.

5. Give the groups approximately 20-30 minutes to prepare their commercials. Have each group present its 5-minute commercial to the whole class. During the interest groups' commercial preparation time, the general public group should carefully read and discuss the information about all of the four interest groups provided on Handout #3. After all groups have presented their commercials, have the general public group decide if members would vote for a protectionist measure or prefer free trade. After the presentations are complete, distribute Handout #4, Automobile Industry: Part 3, to each group. Handout #4 reveals the outcome of the automobile industry's dilemma. Have each group read and discuss the handout.

6. The next activity involves the analysis of a Japanese comic book, *Japan, Inc.*, giving a Japanese perspective on the problems of international trade and the automobile industry. Distribute Handout

#5, *Japan Inc.*, an excerpt, to groups of 4-5 students and ask them to answer the questions about the reading. Allow about 20 minutes for this activity and an additional 10-15 minutes to allow reporters from each group to share discussion.

7. In contrast to the previous activity, the following activity presents many U.S. perspectives on the problems of international trade between the United States and Japan through the interpretation of U.S. political cartoons. Distribute Handout #6, U.S. Political Cartoons, to the same groups of students as in the previous activity. The handout gives a brief description of Japan's controversial non-tariff barriers. Students will need some of this information to help them in their interpretation of the U.S. political cartoons. Assign two of the political cartoons per group. (Sixteen political cartoons are included with the lesson, and illustrate many U.S. perspectives on the problems of international trade between the United States and Japan.) Allow 30-40 minutes for groups to discuss this handout and create their own political cartoon.

   Allow each group 5 minutes to share its U.S. political cartoons and interpretations, and the political cartoon each group developed. During this group sharing, engage all students in a discussion by talking about some of these questions:

   - Which political cartoons were interesting?
   - Which political cartoons did they agree or disagree with most strongly? Why?
   - Which political cartoons delivered their views best? Why?
   - What are some of the stereotypes depicted in the political cartoons?

   An explanation and information on each political cartoon is also provided for the teacher. Refer to U.S. Political Cartoon Explanations/Information, in this lesson.

   Suggestion: Compile the political cartoons developed by the students into a booklet for circulation among students.

8. Inform students that the final lesson in this curriculum unit provides students with perspectives on the future of U.S.–Japan relations from two ambassadors—Michael Armacost, former U.S. ambassador to Japan, and Takakazu Kuriyama, present Japanese ambassador to the United States. Ambassador Armacost provided his statement specifically for this curriculum unit series.

POLLS

From *Time*, June 5, 1989, "Getting Tough With Tokyo":

1. Are Japanese unfairly restricting the sale of American products in Japan?

2. Should Washington restrict the sale of Japanese products in the United States?

3. Is the success of the Japanese in world trade a threat to the U.S. economy?

From *Time*, February 10, 1992, and *Fortune*, February 26, 1990:

4. Which is the biggest threat to the United States today (in 1990)?
   a) environmental damage
   b) Japan's economic dominance
   c) poverty
   d) federal budget deficit
   e) crime and drug abuse

From *Fortune*, February 26, 1990:

5. Would you approve if the Japanese were to buy a major U.S. bank?

6. Should Japanese investment in the United States be discouraged?

7. Who is America's least trustworthy ally?

From *World Press Review*, April 1992, "We Could Be Great Together" by Kenichiro Nakajima, in a poll jointly conducted by *Mainichi Shimbun* (Mainichi Newspaper) and George Washington University on U.S. Congressmembers:

8. Is Japan a serious threat in the U.S. future?

9. Do Japan and the United States share the same basic values?

From *Fortune*, Fall, 1990, Subsection: How the Japanese Talk about Themselves:

10. Do you consider Japan a political superpower?

11. Do you consider Japan an economic superpower?

12. Do you consider Japanese products superior to American products?

13. Do you consider Japanese products superior to European products?

14. Has your respect for the United States increased or decreased in the past five years?

15. Would you buy:
- an American car?
- a European car?
- an imported TV?

POLL RESULTS

From *Time*, June 5, 1989, "Getting Tough With Tokyo":

1. Are Japanese unfairly restricting the sale of American products in Japan?
   65% yes 15% no 20% not sure

2. Should Washington restrict the sale of Japanese products in the United States?
   61% yes 34 % no 5% not sure

3. Is the success of the Japanese in world trade a threat to the U.S. economy?
   76% yes 16% no 8% not sure

From *Time*, February 10, 1992, and *Fortune*, February 26, 1990:

4. Which is the biggest threat to the U.S. today (in 1990)?
   a) environmental damage
   b) Japan's economic dominance
   c) poverty
   d) federal budget deficit
   e) crime and drug abuse

From *Fortune*, February 26, 1990:

5. Would you approve if the Japanese were to buy a major U.S. bank?
   26% yes
   65% no
   9% undecided

6. Should Japanese investment in the United States be discouraged?
   50% yes (1985)
   63% yes (1988)
   64% yes (1990)

7. Who is America's least trustworthy ally?
   Japan 44%
   W. Germany 29%
   France 18%
   Britain 5%

From *World Press Review*, April 1992, "We Could Be Great Together," by Kenichiro Nakajima, in a poll jointly conducted by *Mainichi*

***Shimbun* (Mainichi Newspaper) and George Washington University on U.S. Congressmembers:**

8. Is Japan a serious threat in the U.S. future?
   44% yes
   (*Is it very important to the U.S. to maintain good relations with Japan?
   87% yes)

9. Do Japan and the United States share the same basic values?
   59% yes.

From *Fortune*, Fall 1990, Subsection: How the Japanese Talk about Themselves:

10. Do you consider Japan a political superpower?
    26% yes
    57% no
    17% no opinion

11. Do you consider Japan an economic superpower?
    65% yes
    26% no
    9% no opinion

12. Do you consider Japanese products superior to American products?
    71% yes
    11% no
    18% no opinion

13. Do you consider Japanese products superior to European products?
    72% yes
    11% no
    17% no opinion

14. Has your respect for the United States increased or decreased in the past five years?
    11% increased
    33% decreased
    56% no opinion

15. Would you buy:

• an American car?	8% yes	86% no	6% undecided
• a European car?	16%	77%	7%
• an imported TV?	3%	91%	6%

AUTOMOBILE INDUSTRY: PART 1

In this lesson, your group will be receiving three handouts on the automobile industry. This is an introductory article designed to open up discussion on the topic. Select a reader to read this article. As a group, discuss and answer the questions at the end of the article.

Since the days of Henry Ford's Model T and his assembly line, the U.S. automobile industry has symbolized U.S. industrial growth and strength. The Big Three (Ford, General Motors, and Chrysler), churning out large, luxurious cars that became the hallmark of America's high standard of living, dominated the market throughout the post-war era and into modern times. The Big Three had the capital resources, trained labor force, and high technology that ensured their supremacy in their industry. For a time, no other competitor in the world had the hopes of making a dent in their market share, let alone taking away their dominance.

Foreign competitors were not considered a threat by the U.S. manufacturers until the 1970s. The growing strength of foreign competitors was indicated by their rapid increase in sales in a ten-year period, from 980,000 vehicles in 1969 to 2.43 million in 1979. Japanese sales in this time period tripled, accounting for most of the increase. However, because foreign car sales consisted almost entirely of small cars and the Big Three made most of their profits from selling large cars, this sudden jump in sales did not hurt the Big Three's total earnings, and therefore, did not cause any alarm. Only the UAW (United Auto Workers) expressed some concerns, but took no action.

Concerns about the increase in sales of foreign cars solidified with the Oil Crisis of 1979, which resulted in the doubling of oil prices. Gasoline in the United States had traditionally cost less than half of what it cost in Asia and Europe, so U.S. consumers did not mind buying cars that got low mileage per gallon. Because gasoline prices were so high in Japan, Japanese consumers preferred small, fuel-efficient cars. The extreme jump in the price of gas in the United States made many Americans abandon large gas guzzlers in favor of the small, fuel-efficient cars that the Japanese had so much experience in producing. The American car manufacturers saw a 20 percent decrease in the overall consumption of cars and ever increasing chunks of their market share carved out by Japanese competitors. The Big Three, suffering record losses, and the UAW, seeing their jobs threatened, called for serious action.

handout #1

Questions:

1. What are some of the disadvantages of international trading seen in this reading? According to Lesson 2's process of trade diagram, where would these problems occur?

2. Should Americans do something about the situation of foreign car imports to the United States? Why or why not?

3. What kind of measures can be taken so that the U.S. automobile industry will again be a dominant force in the international automobile market? What can the U.S. automobile industry do? What can the U.S. government do? What can U.S. consumers do?

4. Can the principle of comparative or absolute advantage be applied to this situation? Are there any negative effects if comparative or absolute advantage is applied?

AUTOMOBILE INDUSTRY: PART 2

In the late 1970s, the Big Three—General Motors, Ford, and Chrysler—saw their dominance over the automobile industry collapse as they lost some of their market to Japanese competitors. Chrysler survived only with the help of government loans. Claiming that foreign imports were seriously harming the U.S. automobile industry, the Big Three and the UAW sought the help of the ITC (International Trade Commission). The ITC is a U.S. government agency with the authority to recommend government protection if evidence indicates that foreign competition is seriously threatening an industry. The commission's function is to investigate each request, decide what is best for the nation as a whole, and then recommend a specific course of action to the president. The Big Three had several options:

1. Close plants that are less efficient and retrain workers for industries that are more efficient, utilizing the principal of comparative advantage, which ordains that lowered barriers and heightened trade leads to greater total economic growth through specialization. However, retraining workers would require money and time. While being retrained, workers might be temporarily unemployed. Many might not desire to or be able to change jobs. Often companies are unwilling to retrain workers at company expense.

2. Invest in research and development and modernize factories so that the industry becomes more efficient and therefore more competitive. Thus, the industry's comparative advantage would increase—plants would not close down and workers would retain their jobs. However, modernization requires an enormous amount of money and commitment and has no guarantee of success. Workers might have to settle for less pay and some might be laid off.

3. Lobby for laws and regulations that would restrict imports, thereby lessening or eliminating competition and reducing pressure on industries to improve. This is called *protectionism*. Here are the definitions and some of the effects of three basic kind of protectionism:

- *Tariffs* (import duties) are taxes levied on imports. Importing companies have to pay a certain percentage of the worth of their products to the government of the country that imports the goods. Tariffs have the effects of lessening the pressure on inefficient companies to improve, forcing consumers to pay more for products, and providing a source of income for the government.

- *Quotas* are specific limits on the quantity of specific goods imported during a set time period (usually expressed in terms of years). Quotas have the same effect as tariffs, except that instead of the government collecting tariff money from the importing company, the importing company will usually collect a higher markup or profit from the consumer. This is because quotas drive up price by decreasing supply.

- *Local content laws* are laws requiring a certain percentage of an imported product to be made with components or materials from the country importing. One of its most desirable effects is that it produces jobs and businesses in the country importing. However, local content laws also force foreign producers to compromise their efficiency by changing their method of production.

COMMERCIALS

The U.S. automobile industry is in trouble. As a group, read the information contained under your interest group's heading. Develop a 5-minute commercial that will try to convince the general public group to accept your interest group's position on the automobile industry. Use the information on Handouts #1 and #2 for reference.

Big Executives
You represent the Big Three companies (General Motors, Ford, and Chrysler). Decide the best policy of action that would help the Big Three companies and make a skit for a commercial that would influence people to support your views. Express what you think the International Trade Commission should recommend to the president. You might want to point out that the auto-related industry is the largest industry in the United States and creates many other jobs in many other businesses as well (for example, computers, tire manufacturing, steel).

Facts you might use in your commercial: In 1980, the U.S. auto industry lost $4 billion. In 1992, Japanese auto companies' sales accounted for three-fourths of the U.S. trade deficit with Japan.

United Auto Workers
You represent the United Auto Workers. Decide the best policy of action that would help your workers and make a skit for a commercial that would influence people to support your views. Express what you think the International Trade Commission should recommend to the president. You might want to tell the public of the desperate situation of the workers.

Facts you might use in your commercial: In late 1979, over 600,000 auto-related jobs were lost, in part due to the Japanese car industry's competition. Studies done on the auto industry indicates that 44,000 auto worker jobs were saved when quotas on Japanese cars were put into effect between 1981 and 1985.

Consumer Advocate
You represent people who want to buy cars. Decide the best policy of action that would benefit you most and make a skit for a commercial that would influence people to support your views. Express what you think the International Trade Commission should recommend to the president. You might want to tell the general public of the greed or inefficiency of the Big Three.

Facts you might want to use in your commercial: Quotas set up between 1981 and 1985 increased the price of imported Japanese cars by an estimated average of $1,000 and

allowed U.S. auto makers to charge an average of $1,400 more for each of their vehicles. Every job saved by quotas cost an estimated $251,000 to consumers.

U.S. Companies That Export to Japan

You represent companies that export to Japan. Decide the best policy of action that would help your companies best and make a skit for a commercial that would influence people to support your views. Express what you think the International Trade Commission should recommend to the president. You might want to mention that if protectionist measures are put into effect, Japan might respond with a trade war that could spill into other industries such as yours.

Facts you might want to use in your commercial: According to *Time* magazine (February 10, 1992), the average family in Japan consumed about $394 of U.S. goods compared to the average U.S. family consuming about $360 of Japanese goods. In 1990, U.S. exports to Japan totaled $82 billion, which exceeded exports to France, Germany, and Italy combined.

General Public

You represent the general public. Taking into account all of the groups' positions, weigh the pros and cons presented by each group and decide which type of action should be adopted by the government. When it is your turn to present your opinion, everybody in the group must reveal his or her decision and support it from information obtained in the commercials. Think about what policies or combination of policies best helps the economy or the industry, whichever you believe is more important. Formulate a strategy to deal with the automobile situation. The group will finally vote on whether to support or reject protectionism in the automobile industry.

AUTOMOBILE INDUSTRY: PART 3

In 1980, U.S. automobile manufacturers realized their precarious position in the automobile market and pleaded with the ITC for help. The UAW and Ford Motor Company requested that the ITC restrict Japanese automobile imports by quotas or tariffs. If the request had been approved, the president would have had the legal authority to impose trade barriers. Because the auto-related industry was the largest industry in the nation, millions of citizens would probably have supported imposing such barriers.

However, the ITC did not rule in favor of the UAW and Ford. Instead, it concluded that there was not enough evidence to prove that Japanese automobile imports were doing the harm that the U.S. automobile industry claimed. Other factors such as the recession, high interest rates, and the oil crisis could have contributed to the U.S. automobile industry's slowdown. As a result, President Jimmy Carter had no basis to impose trade restrictions. As a proponent of free trade, he was probably relieved by the decision.

As the situation worsened, Chrysler joined the UAW and Ford in pressing Congress to pass a quota bill that would have restricted the flow of Japanese automobiles into the United States. The Danforth Bill (so called because Senator John Danforth and Lloyd Bentsen drafted it) presented a dilemma to President Ronald Reagan. He was, like President Carter, a proponent of free trade; however, during his election campaign, he had promised relief for the automobile industry. But if he were to let the Danforth Bill pass, proponents of free trade would be outraged at his administration. The only viable solution was to request that Japan voluntarily restrict its exports, thus staving off the Danforth Bill and Detroit's anger.

Negotiators were sent to Japan by President Reagan to reveal the dire situation of the U.S. automobile industry, and to express the Reagan Administration's desire for Japan to voluntarily curb its exports. MITI (Ministry of International Trade and Industry), an agency of the Japanese government, had already requested that Nissan and Toyota, two of the biggest exporters, relax their efforts a little. Now, being told that the Danforth Bill would be passed if further action were not taken, MITI decided to ask the Japanese automobile manufacturers to restrict exports to the United States even more.

On May 1, 1981, MITI announced that Japan would voluntarily restrict its auto exports to the U.S. to 1.68 million vehicles from April 1981 to March 1982. These voluntary export restraints (widely referred to as VERs) lasted for three years, maintaining relatively the same restraint level. By 1983, U.S. automobile manufacturers were making record profits of $6 billion; by 1984, an estimated $10 billion. However, prices rose an average of $1,000 for a Japanese car and $1,400 for a U.S. car, and each job saved by the import restraints annually cost consumers $251,000. In its first two-and-one-half years, it is estimated the VERs cost U.S. consumers an estimated $16 billion. Although the U.S. government made no official demands, VERs were still in effect in 1993. In 1993,

Japanese automobile VERs called for a limit of 1.65 million vehicles, down from the 1991 limit of 2.3 million. In March 1994, MITI announced that it would abolish its VERs on auto exports to the United States. MITI decided to eliminate the VERs because actual auto exports to the United States had fallen steadily, and the Big Three had recently regained their international competitiveness. Japanese automobile exports to the United States in 1994 are estimated to total about 1.4 million, much lower than the 1.65 million ceiling of 1993.

Japan, Inc., an Excerpt

Here is another excerpt from *Japan, Inc.*, which you were introduced to in Lesson 2. As a group, read the excerpt that follows and discuss the questions on this page.

Questions:

1. How are the U.S. auto workers portrayed? What are the reasons that the U.S. auto workers give for why Japanese cars sell so well? Do you think that this depiction of U.S. auto workers is appropriate? Why or why not?

2. How is protectionism helping U.S. autoworkers? How is it working against the Japanese auto companies?

3. According to the comic book, how were VERs viewed by Japanese automobile companies? Do you agree or disagree with these views? Why or why not?

4. What does the Mitsutomo company executive mean when he describes the VERs as only a "stopgap measure?" What does this say about protectionism?

JAPAN INC., AN EXCERPT

U.S. automobile interests force Japanese companies to restrict the export of cars, and Toyosan's president decides to move production to the U.S.;

Mitsutomo's wily Tsugawa is called upon to eradicate union opposition to the move and facilitate the takeover of a plant in the U.S.;

Toyosan's union leader Sato discovers that his personal predilections and political ambitions prevent the pursuit of union interests;

and Mitsutomo's kind-hearted Kudo learns much about earlier trade-friction crises, but is unable to save the Japanese subcontractors who have been manufacturing parts for Toyosan cars.

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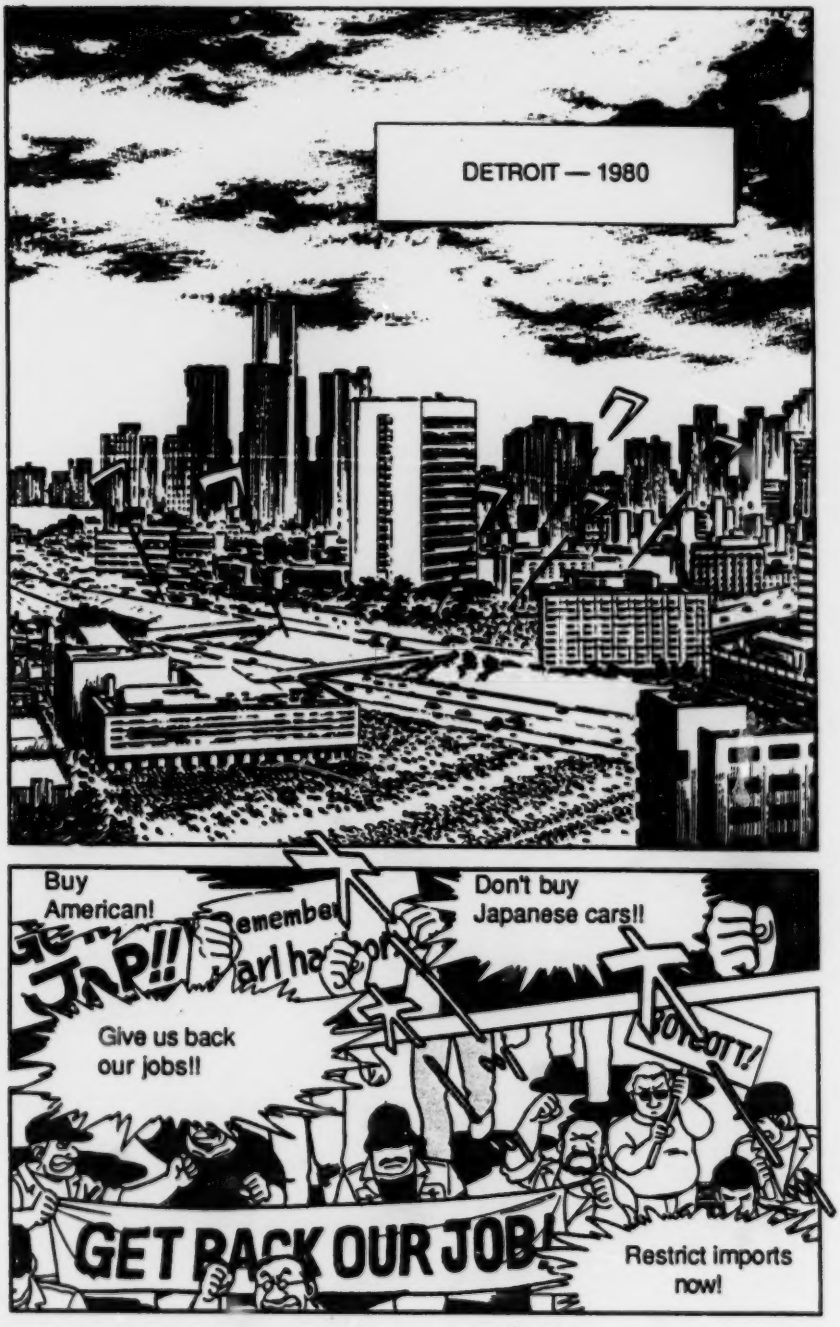

DETROIT — 1980
Buy American!
Don't buy Japanese cars!!
Give us back our jobs!!
BOYCOTT!
GET BACK OUR JOB!
Restrict imports now!

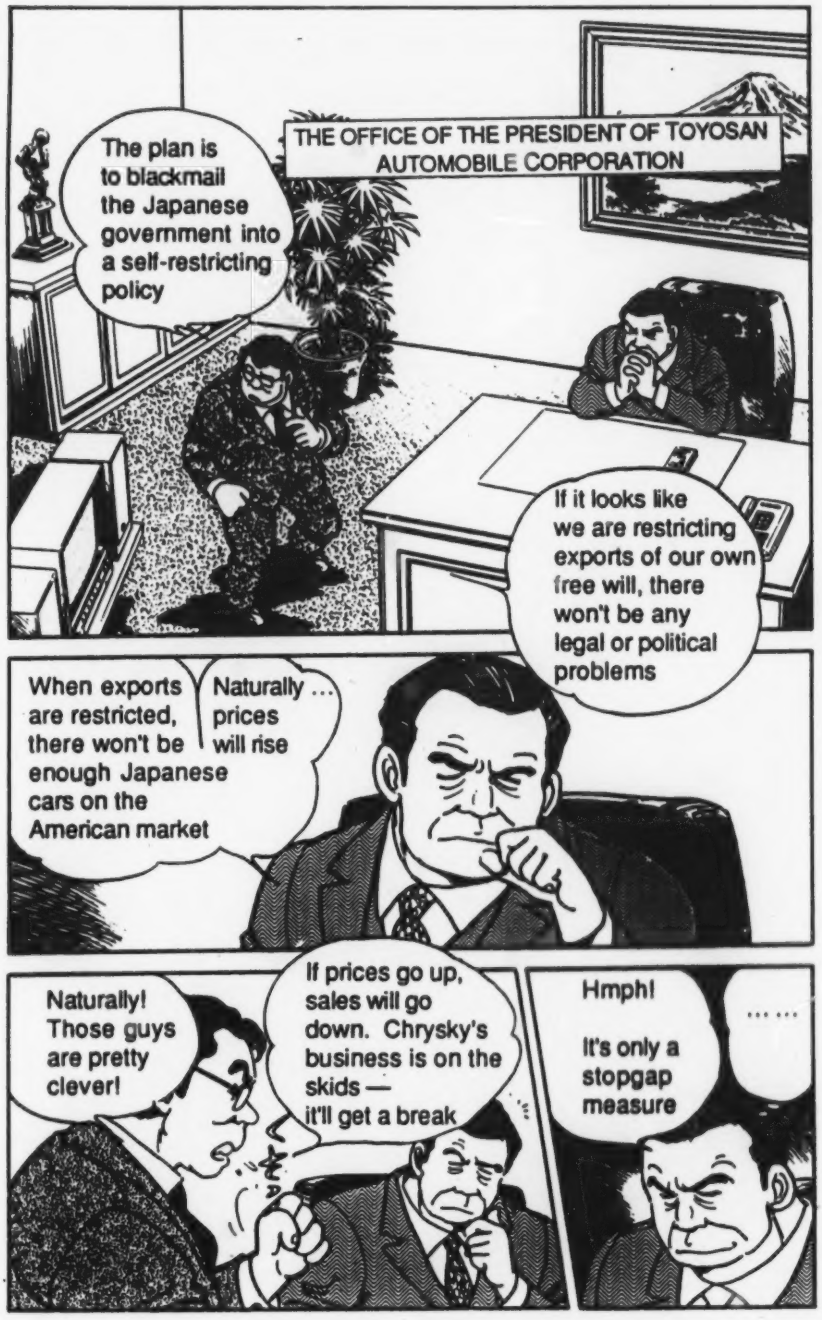
Yeah!!
Let's flatten it!
MAKE
Smash the
Jap car!
Great!
Here I come!
Look out!
Lemme at it!
This is CBN-TV.
May I ask you
a few questions?
Why can't
Japanese cars
get anywhere
around here?
Huh?

© SPICE

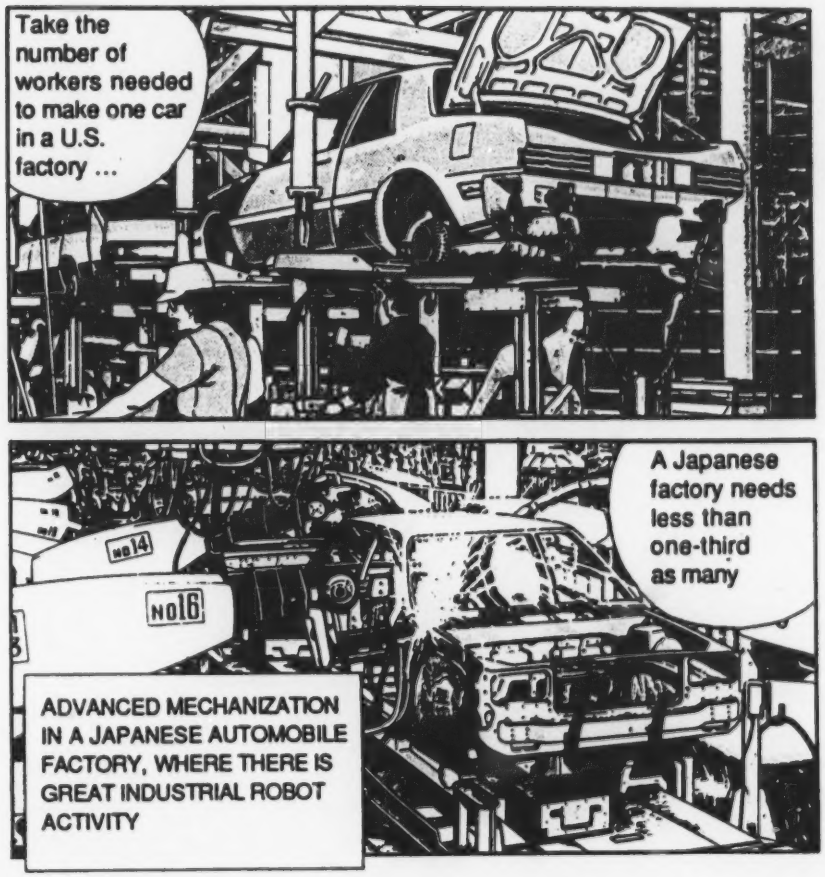
Why? Because the Japanese use dirty tricks to sell their stuff, that's why!
Because of them, we've lost our jobs
Look at this city!
They say our plant'll be closed soon, too
Why the hell do you think everything's going to pot?
CLOSE
But ... don't lots of people like Japanese cars? They're cheap and well made!
Hah!
They're only cheap because of sneaky tactics like dumping
Unfair!!
That's the way those guys operate
Look out! Stand back, everyone!
!!

CBN
DETROIT
Th-this is Kathy White, in Detroit...
THE OFFICE OF PRESIDENT IRONCOKE OF CHRYSKY MOTORS
.....
CBN NEWS

SMIRK!
Get me Washington
[MEANWHILE, IN JAPAN]
Ironcoke's act is pretty obvious
He feeds the fires in Detroit to make things hot in Washington


THE OFFICE OF THE PRESIDENT OF TOYOSAN AUTOMOBILE CORPORATION
The plan is to blackmail the Japanese government into a self-restricting policy
If it looks like we are restricting exports of our own free will, there won't be any legal or political problems
When exports are restricted, there won't be enough Japanese cars on the American market
Naturally ... prices will rise
Naturally! Those guys are pretty clever!
If prices go up, sales will go down. Chrysky's business is on the skids — it'll get a break
Hmph!
It's only a stopgap measure
... ...

© SPICE


Take the number of workers needed to make one car in a U.S. factory ...
A Japanese factory needs less than one-third as many
ADVANCED MECHANIZATION IN A JAPANESE AUTOMOBILE FACTORY, WHERE THERE IS GREAT INDUSTRIAL ROBOT ACTIVITY

Sir!
After self-restriction comes ...
Local U.S. production?
Our rivals, Master Cars, are already beginning preparations. So are we ...
It's needed to give U.S. workers jobs
But ...
ガク..
It's the same old problem, isn't it?
...
What I mean is, we're always
having to perform major surgery
Why don't you leave it to me?
Our affiliates have a sharp young employee — I'll see what he can come up with
In the Mitsutomo Company?

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You can trust me
Fine, but keep our noses clean
TOYOSAN
SIX MONTHS LATER
AT THE MAIN OFFICE OF THE MITSUTOMO COMPANY
Next year's estimate is for 1.68 million cars
That won't shake up the business world
Hmmm. Even the government can't hold out any longer

But ... won't that be rough on our sub-contractors?
Well ... naturally
カチッ
Right now, we can't worry about them
Mr. Tsugawa, don't talk like that! Haven't a lot of our profits come because of the subcontractors?
Times have changed
They'll have to take care of themselves
You mean we're cutting them off?
Un huh ... What are you — the company humanitarian?
Hey!
I'm only saying what's obvious to any company man!!

© SPICE

To any company man ... !?
Don't be crazy!!
We don't deal with small company presidents or the heads of local factories
We're much bigger than that! Our company men are the advance guards for the Japanese economic giant
Sometimes you have to kill the small to give birth to the great
That's what you call the facts of life? That's stupid!
You're only looking at the giant trees above ground. Think of the roots underground that support them
Thank you, professor!
In the real world, if some people laugh, others have to cry. You can't satisfy everyone
And you want our subcon-tractors to cry
I can't buy that!
You're a wimp, Kudo!

U.S. Political Cartoons

As a group, read through the following information about protectionism. This article helps to set the context for the activity that follows on interpreting U.S. political cartoons.

The debate about our economic relations with Japan often centers around the question "Does Japan play fair?" Looking at the enormous trade deficit that the United States has with Japan, it may seem that Japan is not playing fair because it sells more than it buys. However, Japan has a smaller population, GNP, and market than the United States does, so is it fair for the United States to blame Japan for buying less? Is it fair to blame Japan if Americans want to buy Japanese products? Does the trade surplus the United States has with countries like Brazil and England mean the United States is unfair to those countries? Still, the United States has criticized many Japanese trade practices as unfair. "Fairness" in international trade is a complex issue. Unfortunately, as the following cartoons illustrate, both the United States and Japan often show simplistic, emotional, and sometimes prejudiced attitudes when approaching the trade problem. People in both countries should learn more about the question "Does Japan play fair?"

We often use the term *protectionism* when criticizing another country's trade practices. A country engages in protectionism when it "protects" its own industries by treating foreign products differently from domestic products. Countries have engaged in extensive protectionism for hundreds of years. The most common forms of protectionism are *tariffs* and *quotas*, referred to as *official trade barriers*. A *tariff* is a tax on imports that makes them more expensive, while a *quota* limits the number of a certain imported product that the country allows into its market. Today many nations recognize that excessive protectionism can lead to inefficient production and higher prices for consumers and industry. The international organization *General Agreement on Tariffs and Trade (GATT)* brings over 100 nations together to try to reduce protectionism worldwide, but progress remains slow.

The United States considers its market one of the most free in the world, but in many instances, it builds tariff and quota walls to keep imports more expensive. Japan is usually viewed in the opposite light, even though, on the average, Japan has one of the lowest average tariff rates—lower than the United States, Canada, and most European countries. On a number of products (in particular, cars, televisions, computers, semiconductors, and machine tools), Japan imposes no tariff or quota at all, while the United States has quotas limiting products from cars to shoes. Clearly Japan does not have excessive official trade barriers. Why, then, has Japan's market often been labeled by the media and some experts as "unfair" and "hard to crack?"

Critics of Japanese trade practices claim that Japan uses unofficial *non-tariff barriers (NTBs)* instead of traditional protectionist measures. Four major types of NTBs are:

(1) industrial targeting; (2) standards and regulations; (3) complex distribution and retailing system; (4) psychological barriers.

Industrial Targeting
Some people claim that Japan's industrial targeting program gives it an unfair advantage. They say Japan should be called "Japan, Inc." because the whole country works like one big company run by the government. The Japan, Inc. theory says that the Japanese government targets certain industries for development and then protects them from foreign competition and supports them with subsidies (grants given to a private company to assist an enterprise deemed advantageous to the public). This gives Japanese companies an advantage over companies that operate without the support of their government. In the 1800s, Japan's government did help build industry in order to try and catch up to the West. After World War II, the companies in Japan were very weak so the government again helped build industry. However, critics of the Japan, Inc. theory say that it is too simplistic to claim that the government directs all of Japan like one big company. Japan is now the world's second largest economy, and although Japanese companies used to need government protection and funding, now they are strong on their own. Many people feel that industrial targeting is no longer a large factor in the Japanese economy.

Standards and Regulations
Foreign companies trying to do business in Japan have called Japan's system of standards and certification an unfair trade barrier. The Japanese government sets safety codes and standards for new products and imported products. Although Japan claims its standards are designed only to protect the consumer, some past cases show that Japan has used its standards to keep out foreign products. For example, Japan had banned U.S.-made skis, claiming U.S. skis were unsafe in Japan because Japanese snow was "different." The case of Washington apples also illustrates this debate. Although Washington apple farmers have tried to export to Japan for years, the Japanese Ministry of Agriculture and many Japanese farmers claim U.S. apples may carry pests that could harm the Japanese farming industry. The Ministry of Agriculture banned the import of U.S. apples, though it had not even inspected Washington farmers' pest control technology. In 1993, the United States, believing this ban to be an NTB, considered the possibility of reporting the transgression (infringement or violation of a law) to GATT or retaliating with trade barriers of its own. Although the apple debate continues, Japan's restrictive regulations have been reduced greatly and are no longer a major trade barrier for most products.

Complex Distribution and Retailing System
Japan has a complex network of huge numbers of intermediaries, distributors, and retailers, which makes it hard for foreign companies to sell their products. Even in modern Japan, well over half of all stores are old-fashioned mom-and-pop retail stores. Japan's retailers often serve only a small neighborhood. They cannot afford a large inventory or delivery system so they rely on wholesalers for their products. They cannot afford to cut out the wholesaler. In Japan, business relationships are very important, and stores usually remain very loyal to their wholesalers. If a store has sold only Epson

computers for years, it is unlikely to switch to a new supplier to get a competing brand like Apple. Although not intended to be protectionist, the distribution system does tend to keep out foreigners. International pressure has forced Japan to adopt the Structural Impediments Initiative (SII), which aims in part to help foreign companies get access to the distribution system. Some companies, such as Schick Razor, have already managed to weave through the system, and others such as Coca-Cola have bypassed the system by setting up their own distribution systems.

Complaints about corporate organization often refer to the Japanese *keiretsu*. A *keiretsu* is a family of companies, headed by a central corporation, that give each other financial backing and priority in contracts and sales. For example, a large auto manufacturer may purchase some of its parts exclusively from suppliers in its *keiretsu*. This can lock out foreign suppliers (as well as non-*keiretsu* Japanese firms), bringing criticism onto Japan for engaging in unfair trading tactics. The U.S. and Japanese governments have been encouraging (and even forcing) some industries, such as automobile manufacturing and electronics, to buy parts from foreign companies as well as their *keiretsu* firms.

Psychological Barriers

Finally, with many products like electrical goods and cars, some people believe Japanese consumers tend to buy Japanese-made products and to resist foreign products. As a result, some believe that Japanese attitudes present a psychological barrier to trade. Japanese consumers, like the retailers, often prefer a familiar brand with quality and service that they know well. In addition, Japan, without large supplies of raw materials like oil, wood, and minerals, often sees itself as a vulnerable country. Because Japan is not self-sufficient in many natural resources, many Japanese want to support Japan's self-sufficiency by buying Japanese products whenever possible.

Many Americans believe Japan has been slow to remove its trade barriers, but agree that reforms have been weakening Japan's industrial targeting and the standards and regulations barriers. However, many people still feel that the complex distribution and retailing system combines with psychological barriers to make it difficult for foreign companies to do business in Japan. Some people claim that the real problem is that U.S. companies do not try hard enough to sell in the Japanese market, and others say the problem is simply that Japan does not "play fair."

Activity:

Political cartoons are a visual way to express, criticize, and satirize different points of view through humor, symbols, and illustrations. During periods when U.S.–Japan trade friction has been intense, political cartoons focusing on the friction have been common, often expressing the different points of views of the debate.

1. Besides each cartoon, write a brief paragraph explaining the debate. Keep in mind there are always at least two sides to an issue and try to express this in your paragraph.

2. After reviewing the political cartoons, as a group draw one or more of your own political cartoons expressing your views:

   - on whether to support or criticize protectionism or a combination of both.
   - on one of the NTBs listed in this handout.
   - on any issue pertaining to U.S. or Japanese economics.

Select two reporters from your group. One should share your group's interpretation of the U.S. political cartoons; the other should share the political cartoon(s) you developed as a group.

political cartoon #1

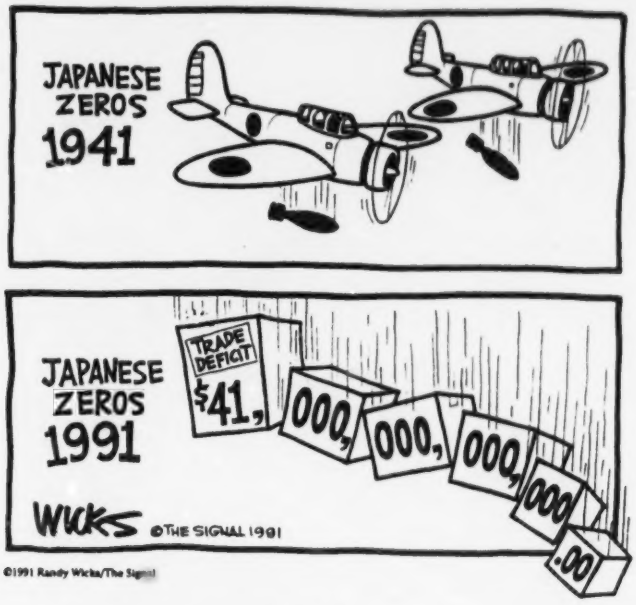
©1987 Steve Benson/Editors Press Service

political cartoon #2

IT HAS BEEN HONORABLE PLEASURE NEGOTIATING WITH LAZY, COMPLACENT, DEBT-LADEN, CONSUMER SPEND-HAPPY, BUDGET DEFICIT-RIDDLED, FAT, INCOMPETENT, GREEDY, CONCEITED, MATERIALISTIC, U.S. FRIEND AND ALLY!
THE MOST HONORABLE PLEASURE IS MINE. SNEAKY, OBSTINATE, SELF-CENTERED, TRADE RESTRICTING, DEFENSE FREELOADING, PIGGY, WORKAHOLIC, SHOW-OFF, TWO-TIMING, AVARICIOUS JAPANESE ALLY BUDDY!
TRADE
TALKS
Distributed by King Features Syndicate
The Miami Herald

©1990 Jim Morin/The Miami Herald

political cartoon #3



©1991 Randy Wicks/The Signal

political cartoon #4

NOW, HERE'S A LIST OF ALL THE THINGS YOU SHOULD DO TO IMPROVE YOURSELF — HELP YOU TO BE A BETTER AMERKIN....
AND WHAT TH' HELL'S THIS?
SOME IDEAS TO HELP YOU BE A BETTER JAPANESE
OLIPHANT

©1990 Pat Oliphant/Editors Press Service

political cartoon #5

©1985 Ed Gamble/The Florida Times-Union

political cartoon #6

©1992 Ed Gamble/The Florida Times-Union

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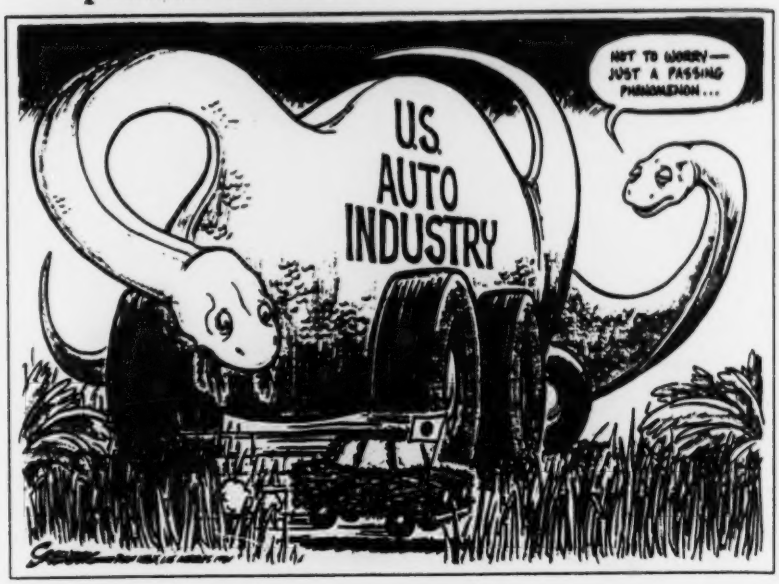
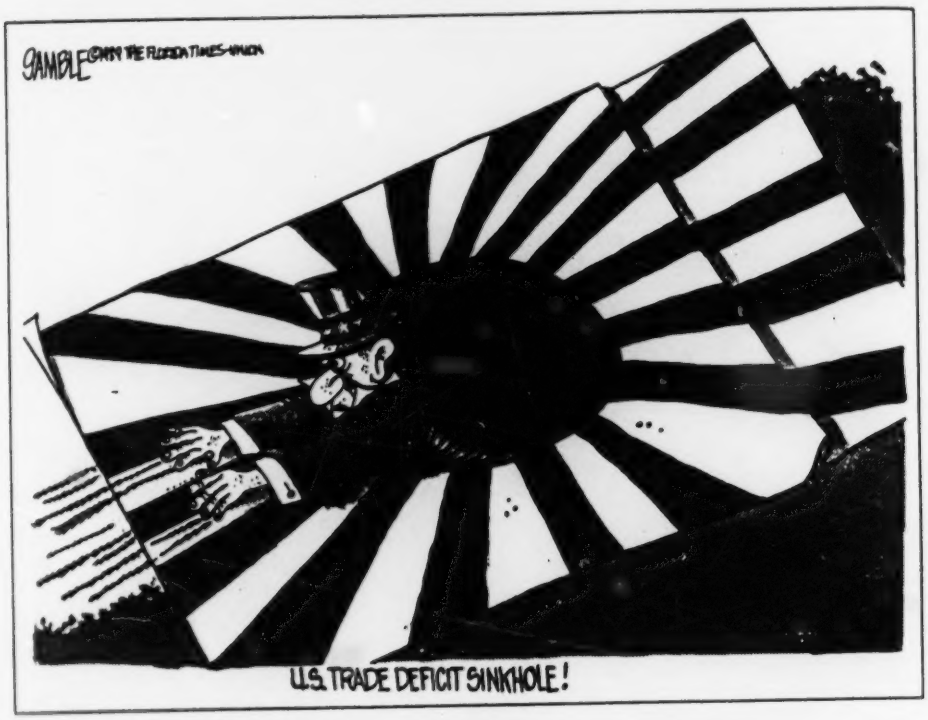
political cartoon #7



©1981 Steve Greenberg/Daily News, Los Angeles

political cartoon #8

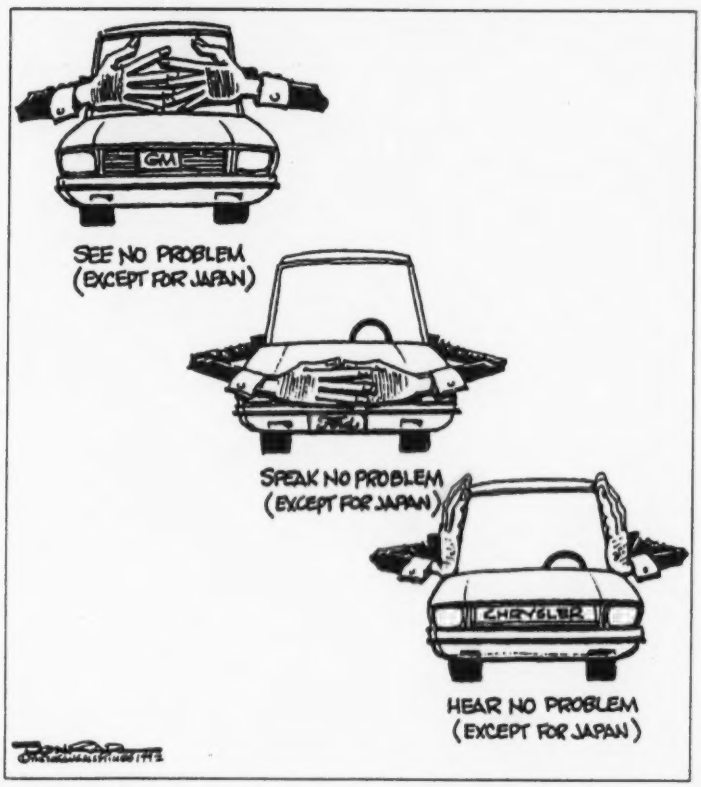


©1989 Ed Gamble/The Florida Times-Union

political cartoon #9

©1992 Bill Day/Editors Press Service

political cartoon #10



©1992 Paul Conrad/The Los Angeles Times

political cartoon #11

AKRON BEACON JOURNAL
BOK '92
I WANT AN AMERICAN CAR.
OF COURSE... WOULD YOU LIKE TO SEE AN AMERICAN CAR MADE IN CANADA, AN AMERICAN CAR MADE IN MEXICO, OR A JAPANESE CAR MADE IN OHIO?

©1992 Arthur Bok/Akron Beacon Journal

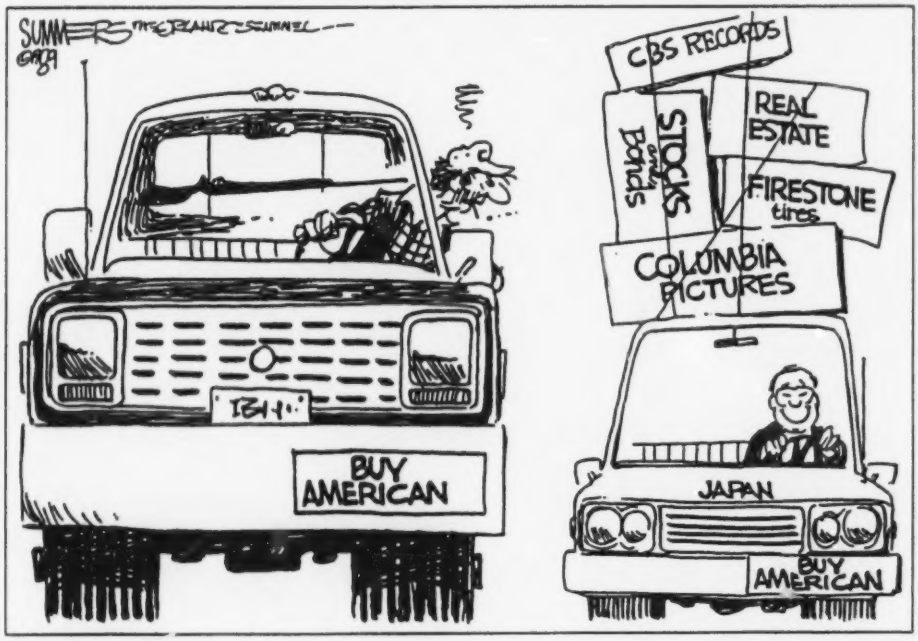
political cartoon #12

©1991 Mike Luckovich/Creators Syndicate

political cartoon #13

©1990 Rob Rogers/The Pittsburgh Press/United Feature Syndicate, Inc.

political cartoon #14



©1989 Dana Summers/Editors Press Service

political cartoon #15

©1992 Dave Granlund/Middlesex News

political cartoon #16

THE FAMILY CIRCUS® By Bil Keane

"At least we're still ahead of the Japanese in chairs."

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U.S. Political Cartoon Explanations/Information[1]

Political Cartoon #1
The sword of trade sanctions cuts both ways. For years, American semiconductor makers complained that Japanese chip manufacturers were dumping in the United States. In March 1987, after months of threats, President Reagan retaliated against Japan by slapping a 300 percent tariff on an array of high-tech Japanese products. Within months, the American government had to partially lift the sanctions because many U.S. businesses were suffering from not being able to find non-Japanese suppliers.

Political Cartoon #2
Throughout the 1980s and into the 1990s, negotiators on both sides of the Pacific grew increasingly frustrated over their inability to settle trade disputes amicably. Cartoonist Morin suggests that although outwardly polite, beneath the surface trade negotiators have developed deep-seated misgivings towards one another. Are these sentiments also reflected in the feelings Japanese and Americans have for each other?

Political Cartoon #3
Japan's propensity to import raw materials and export manufactured goods has concerned many Americans who see this as modern-day mercantilism. Influential U.S. economist Peter Drucker coined the term "adversarial trade" to describe the predatory practice of exporting with intent to devastate markets overseas. Cartoonist Wicks implies that Japan's export policies today are succeeding where military aggression failed fifty years earlier.

Political Cartoon #4
American journalist James Fallows said it all in the title of his book *More Like Us*. In the 1990 Structural Impediments Initiative talks (SII), the United States wanted Japan to save less, work less, and spend more. Japan, for its part, called on the United States to save more, work more, and spend less. SII represented an all new approach to trade negotiations with each side telling the other to be more like itself.

Political Cartoons #5 and #6
After years of trying to break into the Japanese market, American companies are finally making some headway. In 1992, however, when the door seemed to be opening, the Japanese economy had fallen onto relatively hard times and was limited in the amount of exports it could absorb from the United States. Cartoonist Gamble drew political cartoon #5 in 1985 and #6 in 1992.

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[1] Reprinted with permission from Biegelsen, Lawrence H., and John F. Neuffer with translation by Kosei Ono. *Not Just a Laughing Matter*. Kodansha: Tokyo, 1992.

Political Cartoon #7
It was largely the attitude that the Japanese challenge was "just a passing phenomenon" which brought the U.S. auto industry to its knees. By 1980, Iacocca's Chrysler was on the brink of bankruptcy. That same year, the U.S. government pressured Japan into accepting a three-year voluntary export restraint (VER) agreement, which limited Japanese car exports to the United States. Although the arrangement helped Chrysler, Ford, and General Motors get back on their feet, Detroit's unchallenged dominance of the industry was gone forever.

Political Cartoon #8
Poor Uncle Sam. He has gotten into the bad habit of consuming more than he produces. Though the U.S. trade deficit with Japan decreased significantly in 1990, it began slipping deeper in the red again in 1991. The 1993 trade deficit was nearly $60 billion.

Political Cartoon #9
Every once in a while, a Japanese car gets torched by American autoworkers to protest "unfair" competition. The real message of this cartoon is that racism is an unfortunate variable in the calculus of U.S.–Japan relations. The hooded people are members of the Ku Klux Klan, which is notorious for its advocacy of white Christian supremacy. Perhaps one of the saddest examples of racism against Japanese was the case of Vincent Chin, a Chinese American who was beaten to death outside a bar in 1982 in Detroit by an unemployed autoworker and his stepson who had mistaken him to be Japanese.

Political Cartoon #10
Cartoonist Conrad uses the "see no evil, speak no evil, hear no evil" monkeys carved into a temple in Nikko, Japan, to mock American car manufacturers for continuing to blame Japan for problems of their own making.

Political Cartoon #11
By the late 1980s, it became almost impossible to determine what constituted an American car. General Motors now produces cars in Canada, Ford makes autos in Mexico, and all the big Japanese auto makers are manufacturing cars in the United States. In fact, by 1990, Japanese transplants in America had the capacity to build 2.6 million vehicles annually.

Political Cartoon #12
Is the U.S. auto industry suffering from mechanical failure, or has it just temporarily run out of gas? More than ten years after the first automobile Voluntary Export Restraint agreement with Japan, the U.S. car manufacturers remain unable to shift into high gear. Now they are turning to the Japanese for assistance.

Political Cartoon #13
Throughout the 1980s, the United States tried to persuade Japan to buy more of its products. One of the few things Japanese were really eager to purchase were assets located in America.

Political Cartoon #14
Akio Morita, chairman of Sony, often defended Japan's trade surplus with the United States by asking, "What do Americans suggest we buy from you?" insinuating that the United States did not produce goods that were suitable to the Japanese consumer. In 1988 and 1989, however, Morita spent nearly $10 billion in the United States purchasing CBS Records and Columbia Pictures. It seems Morita was able to find an answer to his own question.

Political Cartoon #15
During his visit, President Bush presided over the opening of a Toys "R" Us store in Nara Prefecture. The event may have provided a good photo opportunity, but it was not the best choice in terms of showcasing an American company that had successfully cracked the Japanese market. The fact is that only a small portion of the toys sold in the New Jersey-based chain of stores is made in the United States. Most are made in Taiwan and other Asian countries. Furthermore, toys are not exactly the kind of high-tech industry that will ensure a strong American economy for the future.

Political Cartoon #16
Family Circus is one of America's longest running cartoon serials. Though not generally considered an editorial cartoon (it appears on the comicstrip page), Family Circus is rich in homespun humor and appeals especially to the vast middleclass. The children pictured here are too young to realize that Japanese sometimes do not use chairs when taking meals as a matter of custom, not because Japanese cannot produce them. The observations of this duo represent the widespread frustration in the United States that Japan has beaten America in all but low-technology products.

HISTORY OF U.S.–JAPAN ECONOMIC RELATIONS

The United States and Japan, the world's two largest economies, together make up about 40 percent of the world's GNP. Major partners in trade, diplomacy, and military security, the United States and Japan firmly support constitutional democracy and capitalism. They have also enjoyed relative stability and prosperity over the past forty years. The great amount of trade and governmental activity between the two countries has led many people to now consider the United States and Japan "interdependent." War between the two countries is almost unthinkable. Still, for the past two decades, episodes of bitter conflict have marked this close and usually mutually supportive relationship.

Post-World War II Period: A Strategic Alliance
After World War II, the Allied forces (primarily the United States) occupied Japan and helped establish the constitutional democracy that exists there today. U.S. policy-makers and military strategists considered anti-communism the overriding foreign policy concern of the post-World War II period and saw Japan as a potential ally against the Soviet Union's and China's influence in Asia. Japan, with the need for a military and economic ally, sided with the United States.

Also, war had destroyed Japan's major industries. While some Americans wanted to prevent Japan from reindustrializing, most agreed that an economically weak Japan would become politically unstable. The United States desired a stable and reliable ally and allowed the Japanese access to the U.S. market and technology so Japan could rebuild its economy.

Japan's Economic Miracle: Industrial Policy and Timing
Some observers have called Japan's economic growth of the 1960s and 1970s an "economic miracle." During this period, Japan had ten years of double-digit growth, more than twice the growth rate of the United States over the same period. Initially, Japanese products were low-tech items, such as textiles and toys, that had reputations for low prices and low quality, but by the end of the 1970s Japanese electronics, steel, and automobiles were considered among the world's best.

Some experts feel that the Japanese government's industrial policy, under the guidance of Japan's Ministry of International Trade and Industry (MITI), was responsible for the "economic miracle." Industrial policy is the practice of government intervention in specific sectors of the economy to promote industrial development. MITI helped companies achieve growth by making capital and technology available to promising industries and by providing direction and consultation. MITI also encouraged the movement of industry towards progressively higher-tech products. In addition, MITI limited imports of products that competed with Japanese products to protect the rebuilding Japanese companies from foreign competition.

Not everyone agrees that MITI is primarily responsible for Japan's economic miracle. Some scholars regard Japan's economic miracle as a result of Japanese companies' sound business practices, good

macroeconomic conditions, or fortuitous timing. Whatever the causes, Japan transformed itself from a war-torn country into an economic superpower.

Trade Barriers and Trade Conflicts
Until the late 1960s, the United States tolerated the barriers MITI had set up to protect Japanese companies. In the United States, few companies saw Japan as an important market or serious competitor. Also, Japan's importance as a strategic ally overrode economic concerns during the Cold War. In the sixties, Japan recorded its first trade surplus with the United States. Although this trade surplus remained small, in the late sixties the United States erected trade barriers of its own by demanding Japan put voluntary export restraints (VERs) on steel and textiles.

In the early 1970s, the United States entered its worst recession since the end of World War II. While Japan's extraordinary growth continued during most of the seventies, U.S. inflation and unemployment skyrocketed. The Big Three automakers (General Motors, Ford, and Chrysler), which had not felt threatened by small, unstylish Toyotas, Hondas, and Datsuns, faced unprecedented losses when the oil crises of the seventies suddenly made Japan's small cars popular with consumers.

The trade deficit with Japan, under $200 million annually from 1973 to 1975, grew to $4 billion in 1976, to $13 billion in 1983, and ballooned to $51 billion in 1986. Tensions between the two countries reached new heights. Some companies, politicians, and workers blamed Japan for economic problems in the United States. In response, MITI began to remove many of its protectionist barriers, but the trade deficit continued to grow. Again the United States demanded VERs, this time on automobiles.

Unfortunately, in the 1980s, the tone of the trade conflict between the United States and Japan often had ugly and even racist overtones. Some U.S. critics resurrected World War II stereotypes and declared an "economic war" with the enemy, Japan. Two unemployed autoworkers in Detroit killed a man whom they thought was Japanese (he was actually an American of Chinese ancestry), blaming him for their layoffs. A Japanese prime minister blamed U.S. economic problems on "lazy" American workers, and a U.S. senator talked about reminding the Japanese that U.S. workers had built the atom bomb.

Trade Deficit and Political Solutions
Although some critics want to blame the trade deficit with Japan on a single issue, in reality the trade deficit has many causes. Business practices, policy, and consumer behavior in the United States and Japan can all affect the trade balance. During the eighties, the United States built up tremendous amounts of public and private debt and spent trillions on its military. Businesses spent billions on junk bond and real estate speculation. At the same time, U.S. businesses spent far less on research and development than Japanese businesses. These factors also contributed to slow economic growth during this period in the United States. However, Japanese trade barriers, both official and non-tariff barriers, also increased the trade deficit. Japan also saves more than the United States and spends less on consumption, on its military, and on

infrastructure, such as parks and highways, leaving more available capital for industry.

Despite the multiple causes of the trade deficit, some U.S. businesspersons and politicians have blamed Japan for being "unfair and devious." Others have ignored Japanese trade barriers and have blamed the trade deficit solely on poor U.S. business practices and economic policy. Since the Danforth Bill was proposed in the seventies, the United States has threatened to "get tough" with Japan by instituting retaliatory trade barriers on Japanese products. Japan has responded by lifting most formal trade barriers, but removal of formal barriers accomplished little in terms of the trade imbalance. Despite its formally open market, Japan's rate of importing manufactured goods ranked second-to-last among twenty-two industrialized and developing countries from 1970-1987.

In 1985, the G-5 (or Group of Five industrialized nations: the United States, Japan, Great Britain, West Germany, and France) met at the Plaza Hotel in New York and agreed to try and reduce Japan's trade surplus with other countries through the manipulation of currency exchange rates. By devaluing the dollar and increasing the value of the yen, the Plaza Accord sought to make Japanese products more expensive and foreign products cheaper, which it did. However, the Plaza Accord's unforeseen effects show how difficult it can be to find solutions to complex trade problems. Because the Plaza Accord raised the value of the yen by over 40 percent relative to the dollar, it made doing business in Japan incredibly expensive for U.S. companies, while making it cheaper for Japanese companies to invest in the United States. When Japanese companies used their strong yen to purchase U.S. icons such as the Rockefeller Center and Columbia Pictures, friction heated up amid cries that Japan's investments were "taking over" the United States. The Plaza Accord "solution" had created new problems.

Although the Plaza Accord initially slowed the growth of the U.S. trade deficit with Japan, the deficit began to climb upward again. In 1990, at U.S. prodding, Japan adopted the Structural Impediments Initiatives (SII), which had the purposes of (1) achieving mutual recognition of the domestic structural factors in each country that were responsible for the large U.S.–Japan trade imbalance, and (2) discussing measures to rectify these structural problems. The Japanese problems covered by the talks included the balance between savings and investment, price differentials between Japan and other countries, the distribution system, land use, business groupings (*keiretsu*), and restrictive business practices. The U.S. problems included the imbalance between savings and investment, corporate investment activities, management practices, research and development, export promotion, and labor training and education. Although some reforms seem successful, foreign companies still find it hard to do business in Japan, and the U.S.–Japan trade deficit remains high.

The United States has also lobbied for Japan to reduce its savings rate, end its use of industrial policy, and increase its domestic spending. However, Japan has not placidly accepted all of the U.S. demands and criticism. Some Japanese politicians and businesspersons have countered that the United States has blamed its problems on Japan instead of

solving them itself. They point to exorbitantly high executive salaries, an excessive federal deficit, a focus on short-term profit, poor quality control, and the low savings rate in the United States as reasons for the trade imbalance.

Managed Trade and Avoiding Trade Wars
With no end to the U.S.–Japan trade deficit in sight (the 1993 trade deficit was nearly $60 billion), some Americans have grown critical of unsuccessful efforts to reduce the trade imbalance. Although many economists agree that global free trade would lead to efficient production, reductions in domestic production could mean fewer manufacturing jobs in a country.

Some people believe that the United States needs managed trade to reduce the trade deficit with Japan. Managed trade means that governments help set and manage numerical targets for trade between countries. In the U.S.–Japan case, managed trade would mean the promotion of sales of U.S.-made products in Japan. If Japanese companies do not buy enough U.S.-made goods to meet the targets, then the United States would impose serious import sanctions on Japanese products. Some people worry that managed trade will produce more problems than it creates because it works against the principles of free trade. Others say that Japanese trade reforms will never work so we need to concentrate on the "results" instead of the process.

In 1986, the United States tried establishing numerical goals in the semi-conductor industry, setting a goal of a 20 percent share of the Japanese semi-conductor market for U.S. firms. Although the plan met a lot of resistance from Japanese manufacturers, after several years the U.S. share rose from 8 percent to 14 percent to 18 percent, and then 20 percent. In 1993, President Clinton negotiated an agreement to increase Japanese imports of U.S. auto parts from the 1990 level of $9 billion to $19 billion by 1994. President Clinton also favors increasing the levels of numerical goals for Japanese purchases of U.S. products.

However, in February 1994, President Clinton and Japan's former Prime Minister Hosokawa announced that they could not agree on implementing a managed trade approach to reducing the U.S. trade deficit with Japan. Japanese companies strongly opposed the possibility of having managed trade goals dictate what goods they purchase. Because President Clinton and former Prime Minister Hosokawa failed to reach an agreement, some U.S. and Japanese corporate leaders and politicians have worried that the two countries will begin to use trade restrictions as weapons against each other. Many analysts fear that escalating and retaliatory trade measures could produce a trade war that will bring more injury than benefit to both economies. With Prime Minister Hosokawa's resignation in April 1994, the Clinton Administration faced the difficult task of being "tougher" with Japan and then appointed Prime Minister Tsutomu Hata, while remaining cautious enough to prevent a trade war. With Prime Minister Hata's resignation in June 1994, newly appointed Prime Minister Tomiichi Murayama faces the task of reducing trade friction with the United States, expanding domestic demand for U.S. products, and achieving a phased reduction in Japan's current account surplus with the United States. Because Prime Minister

Murayama is a member of the Socialist party, many U.S. and Japanese analysts feel that there will be little progress on trade disputes between the United States and Japan.

Despite all the attention focused on the U.S.–Japan trade imbalance, other effects of the global economy on corporations should not be ignored. Today Toyota builds cars in California and Kentucky. Japan Airlines buys airplanes made in the state of Washington. Apple and IBM Computers have hard-drives made in Singapore. McDonald's operates 1000 restaurants in Japan. Today multinational companies invest, produce, sell, buy, and employ across national borders. Often overseas success correlates to levels of overseas investment. For instance, Ford has invested heavily in the European market and now produces and sells more cars there than Peugeot. Some people argue that U.S. success in the global economy will require more than a focus on the numbers of products traded between the United States and Japan. Some even ask if the bilateral trade between the United States and Japan matters when viewed in the context of global trade and the overall U.S. economy. Research and development, commitment to education, efficient production, foreign investment, the elimination of trade and investment barriers, and government policy all impact economic success.

Over the years, U.S.–Japan economic relations have seen many transformations. Even in this sometimes stormy relationship, the United States and Japan remain friendly allies on most levels. In the global economy, the importance of finding common ground and resolving differences will become more important than ever.

Lesson 5

THE FUTURE OF U.S.–JAPAN RELATIONS

PERSPECTIVES FROM AMBASSADORS

Organizing Question

What are some important issues facing U.S.–Japan relations in the future?

Introduction

This is the final lesson not only for *Introduction to International Trade: With a Focus on U.S.–Japan Economic Relations* but also for the three-part series, *U.S.–Japan Relations: The View From Both Sides of the Pacific.* Comments from former U.S. ambassador to Japan, Michael Armacost, and present Japanese ambassador to the United States, Takakazu Kuriyama, are included in this lesson. Their comments focus on important issues facing the future of U.S.–Japan relations. Students will have the opportunity to analyze these issues and propose solutions to some of the problems surrounding the issues. A final activity for this curriculum unit utilizes a trivial matters game that reviews some of the information pertaining to U.S.–Japan economic relations.

Objectives

knowledge

- to discuss some important issues facing U.S.–Japan relations in the future
- to review some factual information pertaining to U.S.–Japan interdependence

attitude

- to appreciate the importance of the U.S.–Japan relationship

skill

- to work effectively in small groups
- to propose solutions to issues facing U.S.–Japan relations in the future

Materials

- Handout #1: Statement from Ambassador Michael Armacost, one per group
- Handout #2: Comments from Ambassador Takakazu Kuriyama, one per group
- Transparency: Trivial Matters, one copy
- Trivial Matters: Answersheet, for the teacher

Procedure

1. Begin Lesson 5 by informing students that they will be analyzing comments by former U.S. ambassador to Japan, Michael Armacost, and present Japanese ambassador to the United States, Takakazu

Kuriyama, which focus on important issues facing the future of U.S.–Japan relations.

2. Divide the class into groups of 3-4 students. Elicit their responses to the question, "What are some important issues facing U.S.–Japan relations in the future?" Write these responses on the chalkboard or on butcher paper. Following discussion of these student responses, distribute Handout #1, Statement from Ambassador Michael Armacost, to half of the groups and Handout #2, Comments from Ambassador Takakazu Kuriyama, to the other half. Both ambassadors focus on three important issues in U.S.–Japan relations. Assign each group one of the issues discussed by either of the ambassadors. Allow one class period for this task.

3. Allow each group 10 minutes to share a summary of its work.

4. As a final activity for this curriculum unit, ask the questions on Transparency, Trivial Matters, to review and further illustrate the economic interdependence between the United States and Japan. Many of the questions draw upon information contained in this curriculum unit. Others are included for student interest. For each question, allow each group to guess one of the responses listed. Award points (1–4 points depending on the question) to each group that gives the correct response. Total the points to see which group wins.

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STATEMENT FROM AMBASSADOR MICHAEL ARMACOST

The following statement was written by Ambassador Michael Armacost in January 1994 specifically for U.S. high school students. Michael H. Armacost served as U.S. Ambassador to Japan from 1989 until 1993. In his statement, Ambassador Armacost responds to the question "What are some important issues facing the future of U.S.–Japan relations?" Your teacher will identify one of the topics for your group to research, discuss, and propose possible solutions for. You will be presenting a summary of your work to the rest of the class.

Macroeconomic Imbalances:

Economics tell us that if a country experiences a serious imbalance between domestic savings and investment, that disparity will show up in its external accounts. Thus if Country A consumes more than it saves, it will run an external deficit; and if Country B saves more than it invests at home, it will run an external surplus. In fact, America consumes substantially more than it saves and invests at home, and a persistent and large current accounts deficit has been the result. Conversely, Japan's domestic investment has consistently fallen short of its high rate of domestic savings, and this shows up in the form of a large and equally persistent current accounts surplus. While these are global balances, they are mirrored in the imbalanced bilateral accounts of Japan and America. The remedy seems clear. Japan needs to utilize more of its domestic savings at home, either in expanded consumption or investment. America must consume less and save and invest more. In recent years, both countries have spent more time complaining about the shortcomings of its trading partner than in addressing its savings/investment imbalance at home.

Question #1: Why do you think this is so, and what could be done about it?

Market Access:

Historically, America's economy has been wide open to goods, services, and capital. This kept prices down, provided consumers a wider array of choice, and spurred our businesses to improve their competitiveness. Japan, which was practicing "catch-up capitalism," relied more heavily on protectionism to shield infant industries, develop an autonomous industrial base, and insulate its social arrangements from some of the pressures of international competition. As Japan's power has grown, these barriers to its market have become more and more anachronistic. America has insisted on greater equality and reciprocity of market access, particularly in light of the huge imbalance in our bilateral trade.

A series of international trade negotiations since the 1960s has lowered significantly the classic border impediments to trade, most notably tariffs and quotas. Yet a host of informal barriers remain in Japan, including regulatory policies, licensing

arrangements, customs procedures, domestic subsidies, and clubby *keiretsu* relationships among manufacturers, their suppliers, and main banks, which are difficult for foreigners to penetrate. Comparable barriers exist in America, though on a less extensive scale. Asymmetries in market access not only contribute to the persisting trade imbalance, but provoke political friction as Americans complain that they do not enjoy access to business opportunities in Japan comparable to those extended in America to the Japanese business community.

Question #2: What can be done to achieve more reciprocal market access in Japan?

Investment and Trade:

Some economists maintain that in a global economy, companies that invest in overseas production, distribution, and design facilities are more likely to be successful in exporting to those markets. An overseas practice enables them to tailor products to local tastes, keep track of significant technological developments, and take advantage of local resource endowments. Japan's experience in America would seem to confirm this hypothesis. When its auto and electronics manufacturers established major plants in the United States, its exports did not diminish; they increased. The plants used Japanese capital goods as well as Japanese construction and design services, and the products incorporated many Japanese components and parts. Finished cars and TV exports to the United States may have declined, but not the overall level of Japanese exports related to production in these sectors. American firms that have established comparable facilities in Japan have had a similar experience—they are much more likely to use American components than their Japanese competitors. This suggests that if we wish to expand our exports to Japan, we shall have to invest more heavily in the Japanese market.

Question #3: What of the opposition to such investments by those who say this will lead to the export of jobs?

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COMMENTS FROM AMBASSADOR TAKAKAZU KURIYAMA

The following comments are based on a lecture given by Ambassador Takakazu Kuriyama in the Ambassador Lecture Series at The George Washington University, Washington, D.C. Takakazu Kuriyama is the Japanese Ambassador to the United States. These comments were reproduced and adapted with permission from Ambassador Kuriyama and *Japan Now*, a publication of the Embassy of Japan, Washington, D.C. Your teacher will identify one of the topics for your group to research, discuss, and propose possible solutions for. You will be presenting a summary of your work to the rest of the class.

The Ambassador began by pointing out that there were positive developments during the February summit between former Prime Minister Morihiro Hosokawa and President Clinton, despite the media's focus on trade issues. He said that the Japan–U.S. relationship is based on three pillars: security, global cooperation and economic relations. The first two are strong: "Our security ties remain firm. We closely cooperate on a number of issues." Although it went unnoticed, the summit produced a Common Agenda for Cooperation in Global Perspective. "It contains 15 specific initiatives of Japan–U.S. cooperation in such areas as population, environment, HIV/AIDS, and development of advanced technologies," he said.

U.S. Trade Deficit with Japan:

The ambassador didn't shy away from the fact that the third pillar, economics, is "a little wobbly" right now. "The first question on everybody's mind is always, what about Japan's huge $130 billion trade surplus and the $60 billion U.S. trade deficit with Japan?" Quoting from reports that have appeared in the U.S. press, Kuriyama said that even many Americans believe the deficit is the result of the U.S. consuming more than it produces. "Trade imbalances are mainly reflections of the savings and investment patterns of our two economies and have little to do with the relative openness of the markets," he said. "To the extent the U.S. economy consumes less and saves more to finance growth, its deficit will be reduced. By the same token, to the extent Japan invests more of its savings at home, its surplus will shrink. Hence the need for Japan to promote growth led by domestic demand and create more investment opportunities at home."

Trade statistics can be misleading, Mr. Kuriyama said. He noted that when the Commerce Department includes services in its calculations, the U.S. trade deficits, "both global and bilateral with Japan are reduced by billions of dollars, because the U.S. is highly competitive in services." Also, when Commerce counts profits of U.S. firms abroad as exports, "The $28 billion U.S. trade deficit in 1991 turned into a $14 billion surplus, and the $77 billion dollar deficit last year was smaller by more than $45 billion."

The Ambassador went on to point out that many American economists "generally support the economic fundamentals of the Japanese argument on trade deficits, that the problem lies as much with the U.S. economy as with the Japanese economy. Even Laura Tyson, the chairman of the President's Council of Economic Advisors, has told Congress that only $9 to $18 billion of the U.S. trade deficit has anything to do with Japanese trade barriers." That's a "paltry" figure in a six trillion dollar economy. "Assuming the higher $18 billion figure, this amounts to less than three-tenths of one percent of the U.S. economy."

Question #1: Discuss some of the reasons Ambassador Kuriyama gives for the U.S. trade deficit with Japan. Do you agree/disagree with these reasons? Why?

U.S. Trade Deficit with Japan and Jobs:

Mr. Kuriyama acknowledged the political reality that the trade deficit is emotionally charged in the United States, and "Japan knows this." But he says the fear that the deficit costs jobs in unfounded. "The economic reality is a far cry from the distorted image of Japan as a major threat to the job security of the American people. Today the U.S. sells as much to Japan as it does to the U.K., Germany, and France combined." Japan is the largest market for U.S. agricultural goods, and over 60 percent of U.S. exports to Japan consist of manufactured goods that create jobs here. Japan buys more American goods per capita than the other way around, and its tariffs are lower.

Question #2: Do you agree/disagree with Ambassador Kuriyama's statement that the U.S. trade deficit with Japan is not a major threat to the job security of Americans? List your reasons why.

Tough Times in Japan:

These haven't exactly been the best of times in Japan either, Mr. Kuriyama noted: "In the past two years my country has suffered a stock market collapse, a credit crunch, a contraction of our export markets as the yen has skyrocketed, small business bankruptcies, and plummeting corporate profits. Domestic car production has shrunk to that of ten years ago." Yet, "Japan is still prepared to move on a number of fronts to reduce our trade surplus," he said. Among the actions are "the largest stimulus package ever in our history, $140 billion, including $50 billion in tax cuts in 1994; deregulation measures in priority sectors such as land, telecommunications, and financial services; a streamlining of government procurement practices; and vigorous anti-monopoly law enforcement."

In closing, he said that Japan's "different way of doing business," based on "cultural idiosyncrasies such as the emphasis on harmony and long-term human relationships," sometimes makes it hard for foreign suppliers to enter the market. "But they are not barriers. Cultural differences must be understood. I am convinced that if we learn about each other, if we can make an attempt to understand each other, then we will begin to trust each other. And if we trust, the future will not be as complex and confusing."

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Question #3: What are some examples of Japan's "different way of doing business" that you learned in this curriculum unit? Do you agree/disagree with Ambassador Kuriyama's statement that "cultural idiosyncrasies such as the emphasis on harmony and long-term human relationships" sometimes make it difficult for foreign suppliers to enter the Japanese market? List your reasons why.

TRIVIAL MATTERS

The following 24 questions further demonstrate the economic interdependence between the United States and Japan.

1. In 1992, what percentage of U.S. agricultural exports went to Japan? (2 points)
   a) 10% b) 15% c) 20% d) 35%

2. What percentage of total world exports did the United States and Japan combined produce in 1989? (4 points)
   a) 5% b) 10% c) 22% d) 40%

3. Which of the following has the lowest average tariff rate? (1 point)
   a) Japan b) Canada c) United States
   d) European Economic Community (EEC)

4. In dollar amounts, from which category does the United States export most to Japan? (3 points)
   a) foodstuff b) raw materials c) mineral fuels
   d) manufactured goods

5. In dollar amounts, from which category does Japan export most to the United States? (3 points)
   a) foodstuff b) textile products c) chemical goods
   d) manufactured goods

6. In 1988, how many Americans did Japanese firms in the United States employ? (2 points)
   a) 401,000 b) 303,000 c) 221,000 d) 115,000

7. In 1993, the U.S. merchandise trade deficit with Japan reached its highest point—which was: (3 points)
   a) $60 billion b) $38 billion c) $45 billion d) $48 billion

8. What percentage of the cost of maintaining 16 U.S. bases and 500,000 U.S. soldiers in Japan does Japan contribute? (2 points)
   a) 0% b) 20% c) 40% d) 70%

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9. Match each U.S. company with the Japanese company it is working with. (2 points each)

Chrysler	Toyota
General Motors	Mazda
Ford	Mitsubishi

10. In 1990, what country imported the most from the United States? (3 points)
    a) Japan b) Canada c) Mexico d) United Kingdom

11. In 1990, how much did Japan spend on U.S. goods and services (in dollar amounts) on average per capita? (4 points)
    a) $119 b) $256 c) $394 d) $512

12. During the three years 1989-1992, how much did U.S. exports to Japan rise? (3 points)
    a) 2% b) 65% c) 113% d) 211%

13. How many cars did Japanese auto plants in the United States make in 1990?
    (1 point)
    a) 50,000 b) 500,000 c) 1 million d) 2 million

14. What percentage of the world GNP do the United States and Japan combine to produce? (4 points)
    a) 15% b) 30% c) 40% d) 60%

15. Which companies have branches in Japan? (1 point each)
    a) IBM b) Kentucky Fried Chicken c) Coca-Cola
    d) McDonald's e) all of the above

16. Combined, the United States and Japan traded this amount of goods and services in 1990: (4 points)
    a) $700 million b) $95 billion c) $142 billion d) $ 1 trillion

17. In dollar amounts, how much was Japanese investment in the United States in 1990? (2 points)
    a) $26 billion b) $50 billion c) $90 billion d) $500 million

18. In 1991, what percentage of Japanese car exports went to the United States? (2 points)
    a) 52% b) 20% c) 29% d) 38%

19. In 1990, how many dollars worth of merchandise did the United States export to Japan? (3 points)
    a) $40 billion b) $52 billion c) $75 billion d) $90 billion

20. In 1992, what percentage of total Japanese exports went to the United States? (3 points)
    a) 11% b) 59% c) 25% d) 29%

21. U.S. exports comprised what percentage of Japan's imports in 1992? (4 points)
    a) 5% b) 10% c) 22% d) 60%

22. Approximately how many Americans directly depend on trade for their jobs? (3 points)
    a) 401,000 b) 1 million c) 5 million d) 25 million

23. In 1991, the United States exported $422 billion. Each billion dollars of merchandise trade is estimated to produce how many jobs? (3 points)
    a) 10,000 b) 15,000 c) 20,000 d) 100,000

24. How many McDonald's restaurants are there in Japan? (1 point)
    (a) 50 b) 100 c) 500 d) 1,000

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TRIVIAL MATTERS

The answers to the Trivial Matters questions are highlighted. References and other information about some of the questions are also included. Teachers may want to share this information with students.

1. In 1992, what percentage of U.S. agricultural exports went to Japan? (2 points)
   a) 10% b) 15% **c) 20%** d) 35%
   ☛ Note: Japan is the biggest market in the world for U.S. agricultural products.

2. What percentage of **total** world exports did the United States and Japan combined produce in 1989? (4 points)
   a) 5% b) 10% **c) 22%** d) 40%
   ☛ Note: The United States accounted for the largest at 12.5%, with Germany coming in second at 11.7%. The United States was also the world's largest importer accounting for 16% of total world import.

3. Which of the following has the lowest average tariff rate? (1 point)
   a) Japan b) Canada c) United States
   d) European Economic Community (EEC)
   ☛ Note: Canada is next, followed by the United States and the EEC.

4. In dollar amounts, from which category does the United States export most to Japan? (3 points)
   a) foodstuff b) raw materials c) mineral fuels
   d) manufactured goods
   ☛ Note: Manufactured goods consist of equipment, machinery, and electronics.

5. In dollar amounts, from which category does Japan export most to the United States? (3 points)
   a) foodstuff b) textile products c) chemical goods
   d) manufactured goods

6. In 1988, how many Americans did Japanese firms in the United States employ? (2 points)
   a) 401,000 b) 303,000 c) 221,000 d) 115,000

- ☛ Note: The number of people hired corresponds to 1988, 1987, 1986, 1980 respectively.
- ☛ Japanese companies had 1,433 plants operating in the United States in 1990.

7. In 1993, the U.S. merchandise trade deficit with Japan reached its highest point— which was: (3 points)
   a) $60 billion b) $38 billion c) $45 billion d) $48 billion
   ☛ Note: Figures from a) to d) are from 1993, 1990, 1989, and 1988.

8. What percentage of the cost of maintaining 16 U.S. bases and 500,000 U.S. soldiers in Japan does Japan contribute? (2 points)
   a) 0% b) 20% **c) 40%** d) 70%

9. Match each U.S. company with the Japanese company it is working with. (2 points each)
   Chrysler ..... Mitsubishi
   General Motors ..... Toyota
   Ford ..... Mazda

10. In 1990, what country imported the most from the United States? (3 points)
    a) Japan **b) Canada** c) Mexico d) United Kingdom
    ☛ Note: Japan was second accounting 12.3% of total U.S. exports (more than United Kingdom, Germany, and France combined) at $48.6 billion in 1990. Canada was first accounting for over 21%.

11. In 1990, how much did Japan spend on U.S. goods and services (in dollar amounts) on average per capita? (4 points)
    a) $119 b) $256 **c) $394** d) $512
    ☛ Note: In 1990, the United States spent $360 on Japanese goods and services on average per capita.

12. During the three years 1989-1992, how much did U.S. exports to Japan rise? (3 points)
    a) 2% b) 65% **c) 113%** d) 211%

13. How many cars did Japanese auto plants in the United States make in 1990? (1 point)
    a) 50,000 b) 500,000 c) 1 million **d) 2 million**

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14. What percentage of the world GNP do the United States and Japan combine to produce? (4 points)
    a) 15% b) 30% **c) 40%** d) 60%
    ☛ Note: This amount was estimated at $8.5 trillion in 1991.

15. Which companies have branches in Japan? (1 point each)
    a) IBM b) Kentucky Fried Chicken c) Coca-Cola
    d) McDonald's **e) all of the above**
    ☛ Note: Coca-Cola made more money in Japan than in the United States in 1989.

16. Combined, the United States and Japan traded this amount of goods and services in 1990: (4 points)
    a) $700 million b) $95 billion **c) $142 billion** d) $ 1 trillion

17. In dollar amounts, how much was Japanese investment in the United States in 1990? (2 points)
    a) $26 billion b) $50 billion c) $90 billion d) $500 million

18. In 1991, what percentage of Japanese car exports went to the United States? (2 points)
    a) 52% b) 20% c) 29% **d) 38%**
    ☛ Note: Japanese automobile and automobile parts accounted for $30 billion of trade with the United States or about one third of total Japanese export trade with the United States in 1991.

19. In 1990, how many dollars worth of merchandise did the United States export to Japan? (3 points)
    a) $40 billion **b) $52 billion** c) $75 billion d) $90 billion
    ☛ Note: $90 billion was the amount of merchandise Japan exported to the United States.

20. In 1992, what percentage of total Japanese exports went to the United States? (3 points)
    a) 11% b) 59% c) 25% **d) 29%**
    ☛ Note: This percentage is by far the largest with the EEC coming in second at 19%.

21. U.S. exports comprised what percentage of Japan's imports in 1992? (4 points)
    a) 5% b) 10% **c) 22%** d) 60%
    ☛ Note: This percentage is also by far the largest with EEC coming in second at 15% and Indonesia coming in third.

22. Approximately how many Americans directly depend on trade for their jobs? (3 points)
    a) 401,000 b) 1 million **c) 5 million** d) 25 million
    ☛ Note: Many Americans jobs are indirectly created by trade, for example, mechanics that specialize in fixing foreign vehicles.

23. In 1991, the United States exported $422 billion. Each billion dollars of merchandise trade is estimated to produce how many jobs? (3 points)
    a) 10,000 b) 15,000 **c) 20,000** d) 100,000

24. How many McDonald's restaurants are there in Japan? (1 point)
    (a) 50 b) 100 c) 500 **d) 1,000**
    ☛ Note: McDonald's Co. (Japan), Ltd. opened its 1,000th restaurant in the city of Nagoya on July 20, 1993. This restaurant features a "Super Playland" and "MacSong" (*Karaoke* Singing). McDonald's opened its first restaurant in 1971 in Ginza, Tokyo. McDonald's Co. (Japan), Ltd. last year had more than 212 billion yen in sales with a 10 billion yen profit. Japan is the second largest market for McDonald's worldwide.

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GLOSSARY

absolute advantage—Absolute advantage refers to the situation when one country can produce a product more efficiently than another country. Both countries gain when each makes a product in which it has an absolute advantage and trades part of its output for the other product.

antitrust laws—Laws intended to reduce the power of companies to increase profits by manipulating markets. Goods and services that have few suppliers are most susceptible to monopolies and trusts that reduce competition to keep prices high.

appreciation—A rise in the value of a good, service, currency, or capital.

asset—Capital that can be converted into currency to cover liabilities.

balance of trade—The difference between the value of a country's exports and the value of its imports. To compute a country's balance of trade, the value of its imports is subtracted from the value of its exports. A negative result indicates a **trade deficit**; a positive result indicates a **trade surplus**. The balance of trade can be measured in two ways. The **merchandise balance of trade** measures values of goods (merchandise) only. The balance of goods and services measures the combined values of goods and services flowing across national borders. When one country sells more than it buys from another country it produces a **trade imbalance**.

bankruptcy—A legal declaration of the inability to pay debts to creditors.

barter—To exchange goods or services for other goods or services, rather than for money.

Big Three, the—In the U.S. automobile industry, the three largest manufacturers: Ford, General Motors, Chrysler.

bond—A certificate issued by a government body or corporation that has a fixed rate of interest. Like a stock, a bond is a type of investment, but unlike a stock, a bond has a definite yield. Governments often sell bonds to finance government or public spending.

capital—The factories, machinery, raw materials, and money with which production and commerce are conducted.

comparative advantage—The situation when one country can make two or more products more efficiently than another country, but the advantage is greater in one of the products. Both countries gain when the more efficient producer makes the products in which it has the greater advantage and the less efficient producer makes the product in which it has the smaller disadvantage.

consumer—A person who purchases a good or service.

currency exchange rates—The rate of one country's currency paid for another country's currency. For instance, with an exchange rate of U.S. $1=110 yen, one would get 110 yen for each dollar exchanged.

Danforth Bill—In 1985, Missouri Senator John Danforth introduced legislation that would have placed high tariffs on Japanese imports in order to help correct the trade imbalance. Its nickname was the "Revenge Against Japan Act." The bill was defeated.

depreciation—The decline in value over time of an asset. For instance, as a car gets older its value usually goes down or de.

depression—A period of drastic decline in economic output and employment, usually accompanied by falling prices.

distribution system—The network of warehouses, wholesalers, shipping companies, and retailers needed to get goods from their production site to where they are sold. For example, Coca-Cola has an extensive distribution system to get its products to restaurants, stores, and vending machines.

domestic content laws—See **local content laws**.

exchange rates—See **currency exchange rates** or **floating exchange rates**.

export—Any good or service sold from one country to another.

financing—Obtaining or providing a supply of money, often in the form of a loan or investment. Businesses need financing to start up, to expand, or to operate while waiting for payments from customers.

floating exchange rates—When currency exchange rates fluctuate according to market conditions (supply and demand, strength of one country's economy compared to another). Unlike floating exchange rates, **fixed exchange rates** are set by governments instead of market conditions.

fluctuate—To change. When prices go up or down they are said to fluctuate.

foreign direct investment—When a company or individual other than a bank invests, or puts money into, capital overseas. For instance, when Toyota built a factory in Kentucky or when Toys "R" Us opened a store in Japan, it is referred to as foreign direct investment. When a bank makes a loan to an overseas company, it is called **indirect investment** because the money going overseas goes through a domestic bank.

free trade—Trade without restrictions such as tariffs and quotas.

G-5 (Group of Five Industrialized Nations)—The United States, Japan, Great Britain, Germany, and France—five major capitalist economies. The countries are usually represented by their finance ministers and meet to consider international economic policy. (In 1986, the G-5 became the G-7 when Italy and Canada also became members.)

GATT (General Agreement on Tariffs and Trade)—A multilateral treaty with the goal of promoting trade among its members, which total over 100 nations. The GATT provides both a forum for discussing trade barriers and trade-related disputes and a code of conduct for its members. The first nations signed the treaty in 1947, and it has become the main international agreement on international trade. Members of the GATT meet periodically to negotiate the removal of barriers to international trade. The principles of nondiscrimination and transparency are central to the GATT. Nondiscrimination is reflected in the **most favored nation** clause, which specifies that a party granting a trade advantage to one country must grant it to all contracting parties. Transparency means that trade measures should be made known to other contracting parties, preferably in the form of a tariff, which is highly visible. GATT rules work to lessen the use of import quotas and other restrictions to trade among GATT nations. The GATT also grants special privileges to developing nations without requiring these nations to obey every GATT rule. In April 1994, it was announced that a new **World Trade Organization** (WTO) will replace GATT and serve along with the International Monetary Fund and the World Bank to monitor trade and resolve disputes before they can damage the world economy. The WTO will have more authority to settle disputes over trade, the environment, and workers' rights. The WTO is meant to become effective January 1, 1995, but may be delayed if the United States or other big traders are unable to ratify accords this year.

global economic interdependence—See **interdependence**.

GNP (Gross National Product)—The total value of the goods and services produced by a country in one year.

good—A product or article; any object that is bought, sold, or traded.

import—A good or service sold in one country that is produced in a foreign country.

import duty—See **tariff**.

import quota—A limit on the quantity of a good that can be imported during a designated length of time.

industrial policy—Industrial policy is the practice of government intervention in specific sectors of the economy to promote industrial development.

interdependence—The condition when two or more parties are dependent on each other for things they need. In economics, the concept that all prices are affected by all other prices to some degree, and that all markets are affected by all other markets. **Global economic interdependence** refers to the situation today in which many of the world's countries are dependent on other countries for their economic well-being.

interest—The return paid on borrowed capital. Money deposited in a savings account pays interest, a return on the capital lent to the bank.

international trade—The exchange of goods and services between nations.

intranational trade—The exchange of goods and services within a nation.

investment—The change in capital. Usually it means putting money or other resources into a business, real estate, stocks, or bonds, etc., with the expectation of future profits or income.

ITC (International Trade Commission)—An agency of the U.S. government that monitors the effects imported goods have on the U.S. economy. It can make recommendations that the U.S. government protect certain industries from competition from imports.

joint venture—A cooperative enterprise between two or more companies to manufacture goods or provide services.

keiretsu—This is a Japanese term that refers to a group of affiliated private business enterprises. Often a *keiretsu* will have different types of companies. For instance, the Mitsubishi *keiretsu* includes banking, shipping, and manufacturing companies. The *keiretsu* are sometimes thought to be a non-tariff barrier to trade since *keiretsu* companies will often try to do most of their business with other companies within their keiretsu.

liability—An obligation or debt.

liquidate—To convert assets into cash. For instance selling stocks, equipment, or an entire business.

local content laws—These laws specify that goods sold within a country must have a certain percentage of domestically produced parts in order to be considered a domestic product instead of an import. For instance, a domestic content law on cars would specify that a car have a certain percentage of its parts produced within the country where it is to be sold. Also known as **domestic content laws**.

macroeconomics—Economic theory dealing with a large-scale economic issues, such as national income, savings rate, and levels of employment.

managed trade—A system of trade were governments set policy to help manage the flow of goods and services between countries.

mercantilism—The economic doctrine that a nation's wealth corresponds to the amount of currency brought into the country. Mercantilism was prevalent until the 19th century; mercantilist policies use trade barriers to discourage imports and encourage keeping production and currency within the country.

microeconomics—A study of economics in terms of individual areas of activity, such as a firm, a household, or prices.

MITI (Ministry of International Trade and Industry)—The ministry of the Japanese government responsible for the formulation and implementation of trade and industrial policies for the nation.

most favored nation—See **GATT**.

non-tariff barriers—Impediments to international trade other than tariffs. Examples of non-tariff barriers are quotas, regulations that discriminate against foreign products, or economic institutions closed to outsiders.

Plaza Accord, the—An agreement reached when the G-5 (see G-5) met in 1985 at the Plaza Hotel in New York to increase the value of the yen relative to other currencies. Prior to the Plaza Accord the exchange rate was U.S. $1=242 yen. A year later the exchange rate was U.S. $1=153 yen, making Japanese products more expensive and U.S. products more competitive.

profit—The return or gain from doing business. It is the income of a business minus expenses.

protectionism—National policies that limit or exclude imports that compete with domestically produced goods and services. An attempt to "protect" domestic industries from foreign competition.

quota—see **import quota**.

recession—A economic slump. Less severe than a depression.

resources—Inputs used for production, such as capital, raw materials, employees, etc.

results-oriented trade policy—Trade policy focusing on numerical goals instead of the process of trade.

savings rate—The average proportion of income that a population puts into savings.

services—Work done for others to receive payment. Services often refer to service industries—companies like banking, consulting, even restaurants—that focus on providing service instead of producing goods.

shareholder—A person who owns stock in a company.

shares—The units of stock that represent ownership in a company.

SII (Structural Impediments Initiative)—Series of high-level negotiations between the United States and Japanese governments. The purposes of the talks were (1) to achieve mutual recognition of the domestic structural factors in each country that were responsible for the large U.S.–Japan trade imbalance, and (2) to discuss measures to rectify these structural problems. The Japanese problems covered by the talks included the balance between savings and investment, price differentials between Japan and other countries, the distribution system, land use, business groupings (*keiretsu*), and restrictive business practices. The U.S. problems included the balance between savings and investment, corporate investment activities, management practices, research and development, export promotion, and labor training and education.
stock—A share of ownership in a company.

strong dollar—When the exchange rate allows the dollar to be exchanged for a lot of foreign currency, the dollar is said to be strong. During the 1970s, one dollar could be exchanged for over 300 yen and was considered strong. This

made U.S. products expensive and foreign goods cheaper. In February 1994, the exchange rate was about $1=108 yen, making the dollar weak and the yen strong.

subsidy—A grant made by the government to an individual or company. Welfare is a subsidy to an individual who would have no other means of income. Subsidies to companies are often aimed to help stimulate or support that particular industry.

supply and demand—A classic economic theory stating that supply of a good or service and demand for it determine the price. As demand for a product increases, prices rise. When manufacturers respond to the price increase by producing a larger supply of that product, this increases competition and drives the price down.

tariff—A tax imposed by the government on imported goods.

trade deficit—See **balance of trade**.

trade imbalance—See **balance of trade**.

trade surplus—See **balance of trade**.

treasury bonds—Also known as T-Bills, treasury bonds are known for being a very safe investment because they are issued by the U.S. government.

UAW (United Auto Workers)—A large and powerful union representing autoworkers who primarily work at factories owned by the Big Three (Ford, General Motors, and Chrysler).

VERs (voluntary export restraints)—Rather than face tariffs, a country may enact VERs to reduce the number of a certain product that it exports. Under U.S. pressure, Japan had agreed to impose VERs on televisions, cars, and steel. When it can, the United States prefers to persuade another country to enact VERs rather than imposing tariffs and quotas itself.

wages—Payment for services to a worker.

(WTO) World Trade Organization—See GATT.

yen—The Japanese unit of currency.

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